BIONICHE
LIFE SCIENCES INC.

ANNUAL REPORT 2013

Acting on innovation

Background and Business Model

The Company was founded by Graeme McRae as Vetrepharm, an animal health company, in 1979. At that time, the Company was located in London, Ontario. Mr. McRae believed that the major veterinary pharmaceutical companies were putting insufficient research efforts into alternatives to antibiotics as treatments for livestock disease. He believed that there had to be more suitable ways of treating veterinary diseases that did not have the problems associated with antibiotics, such as, leaving residues in the food chain and promoting the development of resistant bacteria species. Thus, Vetrepharm was established to research and develop such alternatives, and this commitment has remained throughout the Company's 34 years of existence. In the course of developing these technologies, the Company supported itself by developing a number of new product technologies, manufacturing these products and selling them to veterinarians.

This was a sustainable approach in managing the business, growth, and scope of development in the early part of the Company's history, but in more recent years, the Company has been challenged in achieving market recognition of the underlying value it has created. During Fiscal 2013, the Company's Board of Directors and management were faced with the challenges of funding the commercialization efforts for *Urocidin*™, *Econiche*® and new Animal Health product launches, as well as providing for further growth of the Animal Health business. It became clear that the Company could not support the full scope of its initiatives and realize the shareholder value embedded within them in a timely fashion. As well, it became clear that the capital markets were not sufficiently supportive of continued investment and growth in asset values at the expense of liquidity. Accordingly, in 2012, the Company began considering opportunities for recapitalization to enable it to achieve the full potential from commercialization of its technologies and optimize its activities to maximize shareholder value. This includes the decision to divest the Animal Health business, a process that is being led by Evercore Partners.

The Company's current business plan is to:

1. Divest Animal Health, which may also include the sale of the One Health division and Vaccine Manufacturing Centre (VMC).
2. If One Health is not sold, continue to develop the Canadian and international markets for *Econiche*® and to attain GMP validation for the VMC, and continue to seek buyers and/or partners for these assets.
3. Use the proceeds from the sale of Animal Health to immediately repay debt. The total amount of debt payable as a result of the early repayment (taking into account make-whole obligations, etc.) is estimated to be approximately $57.3 million at December 31, 2013. This will clear a significant portion of the Company's debt, resulting in a significant savings in financing costs going forward. The only material obligations that will remain outstanding are the repayable government assistance related to royalties on sales of *Urocidin*™ and *Econiche*® and a term loan related to *Urocidin*™ to the Government of Canada/Industry Canada. However, if the sale of Animal Health is delayed beyond July 1, 2014, the Company will need to seek additional financing to satisfy the repayment of, or refinance, the Paladin Loan, which matures on July 1, 2014.
4. Complete the NDS for Canada for *Urocidin*™ under the NOC/c policy and obtain early market access in Canada.
5. Obtain agreement with the FDA on the most efficient pathway forward for U.S. market access for *Urocidin*™.

6. Initiate and complete deals with distribution partners for *Urocidin*™ in major markets (the United States, Europe, etc.). Bioniche intends to manufacture the product for all global markets and retain a manufacturer's margin.

7. Evaluate license and development opportunities for *Sin Susto*™ in human applications.

8. Hire a new CEO for the Human Health business and restructure the Board with members who have expertise in biologic and pharmaceutical regulatory approvals and commercialization.

The sale of Animal Health (and potentially One Health) will be subject to shareholder approval, and a vote is expected to be held at a special shareholders' meeting to be held on a date after the November 5, 2013 Annual Meeting of Shareholders. At this time, there can be no assurance that either of these business units will be sold. If neither is sold, the Company will have to make alternative arrangements to repay or refinance the Paladin Loan by July, 2014.

Once Animal Health (and potentially One Health) is sold and debt is repaid, Bioniche will have adequate capital resources to support its development and commercialization activities, but will have no immediate product sales revenue and, accordingly, will have a negative operating cash flow or cash "burn" until such time as revenues can be generated from the licensing of *Urocidin*™ or until *Econiche®* (if retained) gains market access and product revenues.

If the Company sells or partners One Health and/or the VMC, the cash "burn" will be reduced and the Company should have additional cash resources on hand so that its principal business going forward is the development and exploitation of immunotherapeutic technologies for human health indications.

Selected Annual Financial Information

	Year ended June 30, 2013	Year ended June 30, 2012	Year ended June 30, 2011
Revenue from continuing operations	**82**	1,986	7,192
Net loss from continuing operations	**(33,791)**	(23,294)	(13,975)
Total loss for the year	**(30,443)**	(24,188)	(12,508)
Basic and fully diluted net loss per share	**(0.29)**	(0.24)	(0.14)
Total assets	**61,503**	82,152	79,789
Total liabilities	**74,045**	66,404	41,181

Fiscal 2013 was an interesting year for our Company, with the return of global rights to *Urocidin*™, the financial stabilization efforts including the refinancing of corporate debt, and the actions by two concerned shareholders aimed at taking control of the Company's Board of Directors.

Now that the latter issue has been resolved with the announcement of a settlement on September 11, 2013 (see Fiscal 2013 Corporate Highlights), the Company is in a strong position to move forward with its corporate strategies without the unnecessary expense and distraction associated with a protracted proxy dispute. The Annual Meeting of Shareholders on November 5, 2013 allows all shareholders to vote on several new Director candidates for the Board of Directors (Board).

Realizing Corporate Value for Shareholders

The Board and management are confident that now is the best time to realize the value created over the Company's 34-year existence and focus future operations on the business unit that we believe provides the best opportunity for future value and liquidity: Human Health.

With the sale of Animal Health and sale or partnering of One Health/VMC (announced in May, 2013), the Company will be in a position to invest in and focus on the commercialization of human therapeutic products, building and creating future value. Mycobacterial Cell Wall-Nucleic Acid Complex (MCNA) — for human bladder cancer (*Urocidin*™) and other potential indications — represents an unprecedented opportunity: Management believes that the potential revenues from *Urocidin*™ are in the hundreds of millions of dollars with typically generous pharmaceutical margins. Bladder cancer is the 4th most common cancer in men in North America. Further income is expected to be generated from distribution agreements with global marketing partners, and such discussions are already underway. The agreement with Paladin Labs for Canada, South Africa and Mexico represents the first of these.

After decades of investment, the Animal Health business has been developed to the point that it has an attractive value in the market. Now is the appropriate opportunity to realize that value for shareholders, and to invest the proceeds in the long-term financial strength of the Company.

The Animal Health business is unlikely to achieve similar potential revenue levels as *Urocidin*™ for many years, and certainly not without significant additional investment in order to develop, acquire or in-license new products. *Urocidin*™ could be on the Canadian market and starting to generate sales revenues within 24 months.

Given that more than $150 million has been invested in *Urocidin*™ development, that this product is close to generating revenues, that its revenue potential is many multiples that of Animal Health, and that there is significant market interest in the purchase of its Animal Health business today, the Board and management determined that the sale of Animal Health was the most appropriate direction to take in order to optimize value for the benefit of all shareholders. The return on investment from the commercialization of *Urocidin*™ is much greater than that of Animal Health products.

Subsequent to the end of Fiscal 2013, the Company added to its cash reserves by raising equity financing in the capital market. This is part of the contracted commitment to our lenders, and will serve to supplement the Company's financial resources sufficiently to complete the divestment of the Animal Health (and potentially One Health/VMC) businesses.

The Company has been criticized for taking on substantial and expensive debt, first from Capital Royalty Partners (now held by Paladin Labs Inc.). The Company has attempted to strike a balance between raising the necessary funds for continuing operations and not overly diluting its shareholders. Debt financing is an appropriate way to obtain additional operating money without causing dilution. The cost of carrying the debt is commensurate with the risk associated with an investment in a late-stage biotechnology company.

The Company fully expects to become profitable upon the commercialization of *Urocidin*™. It should be noted that no other Canadian company has successfully developed (from inception) and commercialized (including manufacturing) a human oncology product.

Biotechnology companies are, by their very nature, expensive to operate. The investment required for research and development of new products — particularly for humans — is significant. Major global pharmaceutical companies advise that it costs between $500 million and $1.5 billion to develop and commercialize a new human health product. Bioniche will have achieved this by spending approximately $200 million.

Corporate Governance and Leadership

Given the significant changes underway at Bioniche, it is appropriate that my role with the Company that I founded more than 34 years ago undergoes a transition.

As announced in an open letter to shareholders in June, 2013, I will be stepping down as President & CEO of the Company upon the hiring of a new CEO for the Human Health business.

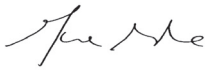
The Board has appointed me Chairman Emeritus. This is a non-voting position that allows me to continue to contribute my years of experience and vast network of industry contacts in an advisory capacity.

At the same time, the Board has offered to engage me in a consulting contract, whereby I will provide business development support to the Company related to several defined projects, including the divestment of Animal Health and divestment or partnering of the One Health/VMC businesses.

My new role in the Company is an exciting one for me. It allows me to focus on key projects without being involved in day-to-day operational management, which has become increasingly demanding over the past few years.

I have no doubt that the Company's streamlined focused and enhanced financial position going forward will make it viable and successful, and I am proud to have contributed to building the foundation for this success.

Regards,



Graeme McRae
Founder, President & CEO

The Company believes that shareholders expect it to act responsibly and do the right thing with their investment. This brief report details some initiatives developed by the Company to achieve its mission of improving quality of life through innovation. The Company takes the term 'corporate responsibility' to heart, and is always trying to maintain policies and practices that exceed government regulations. By embodying the core values of integrity, ethics, loyalty and compassion, the Company hopes to create long-term relationships that enhance the well-being of all of its stakeholders.

Responsible to patients through ethical products

The Company's business model is dependent foremost on the health and well-being of its patients (whether human or animal), so steps are taken to protect them from harmful substances and disease. *Urocidin*™, the Company's bladder cancer therapy that is currently in Phase III clinical trials, is made from a bacterium that is not disease causing. *Econiche®*, the Company's *E. coli* O157 vaccine for cattle, prevents the attachment of a pathogenic bacterium to the intestinal tract of cattle, thus reducing its shed into the environment (food and water supplies) and protecting humans from infection. This vaccine is certified organic. All of the Company's products must pass stringent testing before being made available to the public, and are designed for maximum effectiveness with minimal impact throughout their life-cycles.

Responsible to employees through engagement and empowerment

The Company's management team has worked hard to design a corporate culture that encourages an inclusive and diverse work environment for employees.

The Company is invested in the health and safety of its employees, and is committed to preventing occupational illness and injury in the workplace, as well as to providing and maintaining a safe and healthy environment for employees. Bioniche is proud to have an engaged workforce, who incorporates safety into their daily tasks.

Our goal is the continuous improvement of our health and safety program. Our work towards this goal includes everyday activities, such as workplace inspections, as well as larger projects. Some of the larger projects that we have been working on in the past year include a systematic review and update of our health and safety standards, an improved eye safety program and supervisor training regarding health and safety legislation.

Furthermore, employees have been encouraged to become stewards of the environment by implementing recycling and composting programs at the corporate head office. Paper products are recycled, and kitchen food waste is composted on-site and used to fertilize crops at the Company farm. Every Earth Day for the past nine years, Bioniche employees worldwide have taken part in the "Bioniche Community Cleanup" to pick up litter around corporate sites and in public areas.

Responsible to the planet and local communities through philanthropy

The Company believes that its commitment to responsibility should extend beyond the walls of its offices and laboratories. That's why Bioniche financially support initiatives that contribute to a better planet and community.

The Company routinely sponsors fundraising events, does collections for special needs, and contributes to charitable causes related to health care — especially cancer. When employees participate in a health-related fundraising initiative, the Company typically matches his/her contribution. In the past year, the Company has supported the following charitable causes:

- A Child's Voice Foundation (Angel Hair for Kids)
- Adopt-a-Child
- Alzheimer Society
- Bladder Cancer Canada
- Cardiac Rehabilitation Program
- Christmas Sharing Program
- Gleaner's Food Bank
- Hospice Quinte
- Movember (for Prostate Cancer)
- Ontario Federation of Cerebral Palsy
- The Sandbox Project
- West Island Women's Shelter
- World Vision

Coffee Project in Nicaragua

Some years ago, Bioniche started a project to benefit Nicaraguan coffee farmers. Working with Las Chicas del Café in London, Ontario, Bioniche purchases premium coffee at fair market value that is produced by small, family operators under the delicate canopy of the Nicaraguan rainforest.

This traditional method of producing coffee not only results in premium coffee; it also preserves the rainforest. When traditional coffee farmers do not receive fair trade value for their coffee, their livelihoods are threatened. In many cases, they have little alternative but to deforest their land for profit.

Over the last few decades, small coffee producers who have traditionally produced coffee under the rainforest canopy have been forced to log large tracts of forests to provide a sustainable income. By purchasing this coffee at a fair price, we are supporting these farmers in their endeavours to harvest the coffee from under the forest canopy with no damage to the ecosystem and no loss of biodiversity.

When a coffee drinker tastes this coffee, they will taste the true flavour of humanity: The flavour of a global village united in efforts to help one another.

Supporting Costa Rican Farmers through Sin Susto™

When the Company launched *Sin Susto*™, it's canine calming product for dogs in January, 2013, it also launched an agricultural infrastructure in Costa Rica, creating jobs for local farmers.

Sin Susto™ is composed of two equally important Active Herbal Ingredients,, one of which, Souroubea Spp Botanical Blend (SSBB), has a long history of use by indigenous healers for the treatment of anxiety. Souroubea plant species, the SSBB component of Sin Susto™, has been traditionally used by indigenous healers in Central America and the Amazon to treat a number of conditions, including anxiety and nervousness, or "susto", a condition likely synonymous with what modern society would term "post-traumatic stress disorder". Indigenous healers in Belize, who have reported practicing traditional medicine for an average of 53 years, revealed that in their experience of treating "susto" with the Souroubea plant species, the plant and extracts are effective and safe, with no adverse effects.

The raw material supply chain is under development as the Company moves from a wild crafting situation (harvesting from the wild) to plantations. Bioniche has established the very first three-hectare research plantation of Souroubea in Costa Rica. Souroubea is a wild tropical vine and no-one has ever attempted to cultivate Souroubea in plantations. Local capasinos (farmers) are anxious to grow a crop that could make them more money and they have been very creative in acscertaining how to propagate the plant, developing a management plan, and forecasting potential yields. The Company has committed itself to help develop a grower platform that can be passed on to local capasinos while preparing for expansion of production as the need arises.

The Company

Bioniche Life Sciences Inc. is a well-established life sciences company with revenues from product sales, multiple product offerings, physical infrastructure and human resource capabilities. The Company's shares have been publicly traded on the Toronto Stock Exchange (TSX) since February, 1992 and on the Australian Securities Exchange (ASX) since January, 2011. On both exchanges, the Company is listed as "BNC". The Company has had a demonstrable track record of successfully commercializing proprietary technologies in the human and animal health (veterinary) fields.

The Company currently operates through three divisions:

Bioniche Human Health

- Drug discovery & development
- Products based on proprietary technology
- Bladder cancer treatment in late stage (Phase III)

Bioniche Animal Health

- Largest Canadian-owned, research-based animal health company
- 60+ products sold globally with focus on:
  - Reducing reliance on antibiotics (immunology)
  - Enhancing reproductive performance
  - Preventing disease (vaccines)
- Fiscal 2013 sales: C$31.5 million

Bioniche One Health

- Development of animal vaccines to help reduce zoonotic diseases affecting human health
- *E. coli* O157 cattle vaccine fully licensed in Canada
- Other animal vaccines in pipeline (e.g., *recombinant E. coli*)

Settlement with Concerned Shareholders

On September 11, 2013, the Company announced that it and two concerned shareholders, William (Bill) M. Wells and Greg Gubitz, announced that they have reached a settlement. The primary components of the settlement are:

1. Effective immediately, Greg Gubitz will join the Board of Directors as an Independent Director. Mr. Gubitz will also be immediately appointed to the Board's Corporate Governance and Nominating Committee;
2. The Board of Directors will be reduced to 7 members at the Annual and Special Meeting of Shareholders on November 5, 2013;
3. A new slate of Directors will be nominated shortly by the Company for election at the forthcoming Annual Meeting of Shareholders on November 5, 2013. That slate will include two of the current Directors, James Rae and Rod Budd, as well as Greg Gubitz, three new Independent Directors (none of whom have previously served on the Board) to be selected by the Corporate Governance and Nominating Committee of the Board from a list of candidates agreed to by Bioniche and the concerned shareholders, and the Company's new Chief Executive Officer once hired;
4. As a show of support for the Company and the new strategic direction for the business, Messrs. Wells and Gubitz have agreed to subscribe for, in aggregate, $250,000 of units under the Company's Canadian prospectus offering;
5. The Board of Directors will oversee the sale of the Animal Health division and the sale or partnering of the VMC, as well as a strategic review of plans for *Urocidin*™ and the One Health Division, and the appointment of a new Chief Executive Officer;
6. Messrs. Wells and Gubitz have agreed to support the sale of the Animal Health division, subject to a stated minimum sale price;
7. The Company is committed to the timely return of capital to shareholders commencing within 60 days after the sale of the Animal Health division. The Company has committed to distribute to shareholders a percentage of the net aggregate proceeds of the sale of the Animal Health division and the VMC exceeding a certain amount of proceeds by way of share buybacks and/or dividends; and
8. The concerned shareholders have agreed to cease their shareholder activism for two years. The Company has agreed to reimburse a portion of the expenses incurred by the concerned shareholders, which was less than the estimated cost to the Company of continuing the proxy dispute.

Canadian Equity Offering

On August 6, 2013, the Company announced that it had filed a preliminary short form prospectus in all Canadian provinces with the exception of Quebec, Prince Edward Island and Newfoundland and Labrador for an equity offering (the "Offering") of a minimum of $5 million and a maximum of $7.5 million. The Offering was to be pursued on a best efforts basis pursuant to an agency agreement to be entered into between the Company and Euro Pacific Canada Inc. (the "Agent"). It was announced that the net proceeds from the Offering will be used to support the development of the Company's Phase III bladder cancer product, *Urocidin*™, and for general corporate purposes. This additional funding will help to ensure that the Company is adequately capitalized as it completes the divestment of its Animal Health business unit. Based upon orders and indications of interest received by the Agent, the Company confirmed that each unit is priced at $0.29. The unit includes one Common Share and one-half of a Warrant exercisable at $0.40 for two years.

On September 18, 2013, the Company announced that it had filed a final short form prospectus for this Offering. Due to demand, the Offering size was increased to $9,000,000 and the proposed over-allotment option was cancelled.

On September 26, 2013, the Company announced that it had closed the Offering and a related private placement of 33,808,620 Units priced at $0.29 per Unit for total proceeds of $9,804,500. After deducting the Agent's cash fee and other expenses, the net proceeds to the Company are approximately $9M.

Strategic Collaboration with Paladin Labs Inc.

In June, 2013, the Company announced that it was entering into a comprehensive strategic collaboration with Paladin Labs Inc. (Paladin) to refinance and increase the Company's debt, provide new equity, and enter into the first licensing deal for the Company's Phase III bladder cancer product — *Urocidin*™. This transaction closed on July 5, 2013.

Paladin acquired the Company's existing debt facility with Capital Royalty Partners II L.P. and its affiliates for approximately $22 million (including accrued interest and prepayment penalties). Concurrently with such acquisition, Paladin and the Company agreed to enter into an amended loan transaction whereby Paladin shall provide an additional $8 million loan to support the Company's ongoing operations, $5 million of which was

provided upon closing of the amended loan transaction and $3 million of which will be available upon the Company's receipt of equity in the form of licensing revenue or an equity financing.

The total loan bears a reduced interest rate of 13.25% and will mature on July 1, 2014 with a payment of 105% of principal due on the sale of the Company's animal health business. The requirement to maintain minimum liquid assets has been lowered from $5,000,000 to $2,500,000 immediately.

Capital Royalty has retained its 2% royalty interest on all of the Company's product sales revenues. As partial consideration for the entering into of the amended loan transaction, Bioniche granted Paladin Warrants to acquire Common Shares ("Warrants"), such Warrants to expire on the earlier of two years from the complete repayment by Bioniche of the loan or May 31, 2019. The following number of Warrants were issued to Paladin, subject to the terms noted below:

- 750,000 Warrants at an exercise price of $0.31
- 500,000 Warrants at an exercise price of $0.50
- 250,000 Warrants at an exercise price of $0.70
- 250,000 Warrants at an exercise price of $0.85
- 250,000 Warrants at an exercise price of $1.00
- If the loan has not been repaid by Bioniche by January 1, 2014, 500,000 Warrants will be exercisable at an exercise price equal to the 5-day volume weighted average share price calculated as at December 31, 2013.
- If the loan has not been repaid by Bioniche by April 1, 2014, 500,000 Warrants will be exercisable at an exercise price equal to the 5-day volume weighted average share price calculated as at March 31, 2014.

Also as part of these arrangements, Paladin has agreed to invest $500,000 in the Company should it complete an equity raise by September 30, 2013. The Company committed to invest at least $3 million from the new loan and an additional $2.5 million from the equity raise towards the development and approval of *Urocidin*™ in Canada.

The Company agreed to grant Paladin an exclusive license to market and distribute *Urocidin*™ for bladder cancer in Canada, South Africa and Mexico. The companies have agreed to a net revenue sharing arrangement. The Company will be responsible for all product development and manufacturing costs and Paladin will be responsible for all sales and marketing costs in the said territories. Further, the agreement provides that Paladin will pay a series of potential sales performance milestones that can total up to $16 million during the term of the agreement.

The above-noted transactions closed on July 5, 2013.

Divestment of the Animal Health Business

In May, 2013, the Company announced that it has engaged U.S.-based Evercore Partners to assist the Board of Directors and management in the divestment of the Animal Health business. Evercore is a leading independent advisory firm in the U.S. that specializes in merger and acquisition transactions, divestitures and restructurings. This decision to divest the Animal Health business was taken following several months of discussion between the Board of Directors and management related to unlocking corporate value for the benefit of all shareholders, and following the receipt of several unsolicited offers to purchase the business. The Company also noted that it has had preliminary discussions with companies that have an interest in potential partnerships around its *Econiche® E. coli* O157 cattle vaccine, and around manufacturing capacity in the Vaccine Manufacturing Centre.

Dissident Shareholder Action

Two former Biovail Executives published a letter to the Board of Directors in April, 2013 in which the Company's stock performance was criticized and the Company was encouraged to engage in open dialogue with all shareholders. The Company responded by stating that its Board of Directors had been working for a number of months to unlock the inherent value in the Company's assets, and that several strategic partnering and investment-related offers had been received and were under review. It was also noted that the individuals behind the letter have had access to confidential corporate information, and have made two overtures to the Company which do not favourably compare to the opportunities under review.

Later in April, the Company acknowledged a formal request for a shareholder meeting from one of the two former Biovail Executives. In early May, the Company responded to the meeting request by advising that its Board of Directors, upon recommendation of a newly struck special committee of independent directors and with the advice of its legal counsel, has determined that the dissident shareholders' request for a shareholder meeting does not constitute a valid shareholder requisition. Accordingly, the Company will not be calling a meeting of shareholders in response to the Request. It was further advised that the Company has called its regularly scheduled annual meeting of shareholders for the financial year ending

June 30, 2013, for November 5, 2013 and has fixed September 9, 2013 as the record date for shareholders to receive notice of and vote at the meeting.

In late May, the Company responded to a second requisition from the dissident shareholders by advising that the Board of Directors has concluded that: (i) the delivery of the second requisition is tacit acknowledgement that the first requisition was defective; and (ii) the second requisition does not require Bioniche to call a special shareholders meeting under the *Canada Business Corporations Act* as a record date has been fixed and published for a scheduled meeting of shareholders. The scheduled meeting date of November 5, 2013 is in accordance with the normal cycle and is in the best interests of the shareholders and the Company, as it allows shareholders time to consider the issues associated with a contested Board election while not disrupting the important initiatives under way to divest the Animal Health business, as well as allowing time for the Company to address its financial requirements and to re-partner *Urocidin*™. The Company acknowledged that the dissident shareholders have advised that they intend to bring a Court application to require an earlier meeting. The Bioniche Board has determined to oppose that application.

In June, 2013, the Company issued an Open Letter to Shareholders from its President & CEO, Graeme McRae. In this letter, the Company's position with regard to the dissident shareholders and its corporate strategies to unlock asset value were outlined.

In later June, the Company responded to the latest tactics by the dissident shareholders, which involves setting an August date for a shareholder meeting. The Company believes that this is an inappropriate and invalid step given that the Company has already set its shareholder meeting date for November 5, 2013. Although these shareholders have already initiated court proceedings against the Company to try and force a meeting date for earlier than November, with a court date set for July 18th, the Company stated that they proceeded with announcing an August meeting date in total disregard for the court process.

On July 23, 2013, the Company reported that the Superior Court of Justice — Ontario had rendered its decision with respect to the timing of a shareholder meeting. In his 30-page ruling, Justice Brown declined the application by a dissident shareholder group to compel a shareholder meeting and granted a declaration that the dissidents are not entitled to proceed with the meeting they called for August 27, 2013. As a result, the Company will proceed with its scheduled shareholder meeting date of November 5, 2013.

Corporate Reorganization

In March, 2013, the Company announced that it is moving its Human Health business into a new, wholly-owned private subsidiary — Bioniche Therapeutics Corp. This reorganization is being done to allow the subsidiary to function as a standalone unit, with the new structure allowing direct external investment to support research and development activities, commercialization activities and acquisition opportunities, all of which could result in accretive value to the parent company.

Change in Board of Directors

In December, 2012, the Company announced that Mr. Nick Photiades was stepping down from the Board of Directors. He served as a Director for three years. It was decided that the vacancy created by his departure would not be filled.

Independent Chairman Appointed to the Board of Directors

In July, 2012, the Company announced that Mr. James Rae had been appointed as independent Chairman of the Board of Directors. The Chairman role had previously been performed by President & CEO, Mr. Graeme McRae.

Mr. Rae has been the CEO of London, Ontario-based Viron Therapeutics Inc. since 2007. He has over 30 years of experience in the manufacturing, marketing, financial and R&D operations of both pharmaceutical and biotechnology firms. He has considerable expertise in financing from public, private and government sectors and in deal-making with multinational companies.

Return of Global Urocidin™ Rights to Bioniche from Endo

In December, 2012, the Company announced that the global rights to *Urocidin*™ are being returned to the Company from Endo. The two companies came to an agreement that a mutually favourable path forward for *Urocidin*™ is to return global rights to the Company with a royalty paid to Endo on future revenues. In January, 2013, the Company announced that the royalty to Endo will be 5% on future net sales revenue for a term of ten years from the first commercial sale of the product or, on a country by country basis, until the last of the valid patent claims has expired or been invalidated. Activities related to termination of the original July, 2009 license agreement between Endo and the Company were expected to be concluded by March 31, 2013, at which time, clinical trial sponsorship returned to the Company.

In April, 2013, the Company confirmed that it has regained sponsorship of *Urocidin*™ from Endo and that Endo has completed all termination activities related to the original license agreement. The Company announced its intention to schedule meetings with North American regulatory agencies, including Health Canada, which has a Notice of Compliance with Conditions policy under which *Urocidin*™ may qualify for early access to the Canadian market.

The Company announced the closing of a first new licensing deal for *Urocidin*™ on July 5, 2013 with Paladin Labs Inc. (Paladin). The Company has also agreed to grant Paladin an exclusive license to market and distribute *Urocidin*™ for bladder cancer in Canada, South Africa and Mexico. The companies have agreed to a net revenue sharing arrangement. The Company will be responsible for all product development and manufacturing costs and Paladin will be responsible for all sales and marketing costs in the said territories. Further, the agreement provides that Paladin will pay a series of potential sales performance milestones that can total up to $16 million during the term of the agreement.

In July, 2013, the Company announced the outcome of a meeting in late June with Health Canada, at which time the Company discussed the filing of a regulatory submission for *Urocidin*™ under Health Canada's Notice of Compliance with Conditions (NOC/c) policy. Health Canada advised the Company that the data from the first Phase III clinical trial with *Urocidin*™ may be sufficient to qualify for filing under the NOC/c policy. The regulator asked the Company to submit a clinical assessment package addressing some clinical questions as part of the request to file a New Drug Submission (NDS) under the NOC/c policy. It is anticipated that all materials may be submitted to Health Canada before the end of calendar 2013. Approximately one year of review would follow and, if Health Canada is satisfied with the submission, an approval under NOC/c could follow before the end of 2014.

Lead Animal Health Product Gains Access to Seven Additional European Markets

In July, 2013, the Company announced that regulatory authorities in seven European countries agreed to register its top-selling animal health product — *Folltropin®*. The countries are Austria, Czech Republic, Denmark, Finland, France, Germany and Poland. Formal marketing authorizations have been issued in four EU markets — Austria, Denmark, France and Germany — and the other approvals are expected to follow within the next several weeks. *Folltropin®* is a global market leading follicle stimulating hormone that is used to superovulate reproductively mature cattle. *Folltropin®* had previously been sold in Canada, the United States, Australia, New Zealand, Mexico, Brazil, Argentina and other Latin American countries, Korea, South Africa, China, the Netherlands, UK, Italy, Spain and Ireland.

Sin Susto™ Launched in Canada

In January, 2013, the Company announced that its *Sin Susto*™ canine calming agent was launched in Canada at the annual Ontario Veterinary Medical Association Conference. *Sin Susto*™ — "without fear" — is an herbal calming product for dogs in chewable tablet form that was developed in collaboration with the University of Ottawa. The product is made from natural botanical ingredients and acts as an agonist at the Gamma-aminobutyric acid (GABA)A receptor site. GABA is the primary inhibitory chemical messenger in the brain. *Sin Susto*™ has been proven safe and effective, is highly palatable, is non-habit-forming and non-psychotropic, and does not act as a tranquilizer.

Hong Kong Regulatory Approval for Original Equine Anti-Inflammatory Product

In December, 2012, the Company announced that the Department of Health in Hong Kong has issued a license to sell the Company's *Enhance*™ I.A./I.V. in that special administrative region of China. *Enhance*™ I.A./I.V. is a formulation of purified hyaluronate sodium that can be administered to horses by intravenous or intra-articular injection. It is indicated in the treatment of joint dysfunction of the carpus or fetlock in horses due to non-infectious synovitis associated with equine osteoarthritis. Hyaluronate sodium acts as a replacement for synovial fluid, the naturally occurring lubricant in articular joints. Joint degeneration is associated with the loss of synovial fluid, and the lack of its lubricant effects results in considerable pain and inflammation for the horse.

The Company has been developing different formulations of sodium hyaluronate for the equine markets in Canada, Australia and New Zealand — sold as *Enhance®* — since 2001/02. Both *Enhance®* and the recently launched *NexHA*™ in Canada are produced with a sodium hyaluronate solution that is obtained from a selective fermentation source using a manufacturing process that is free from thermal degrading effects and delivering high specificity.

Two Canine Cancer Products Being Commercialized

In May, 2012, the Company announced its plans to commercialize two canine cancer products based on its proprietary mycobacterial cell wall technology. In July, 2012, the Company reported that the first of these

products — *Immunocidin*™ received regulatory approval in Canada and the U.S. as an immunotherapy for the intratumoral treatment of mixed mammary tumor and mammary adenocarcinoma in dogs. *Immunocidin*™ was subsequently launched in the U.S. in October, 2012, and in Canada in January, 2013.

The second therapy under development is an I.V. therapy based on the same technology. Clinical studies show that a single dose of the second product following chemotherapy treatment in healthy dogs restores the number of white blood cells in the dog to normal levels within 24 to 48 hours with few side effects. The Company is undertaking dose confirmation studies prior to conducting final licensing studies. Regulatory approvals will be sought first in North America, then in Australia and Europe.

Counterfeit Product Identified

In September, 2012, the Company announced that one of its equine products — *HIPPIRON*™ *1000 — has been counterfeited, and was discovered being sold via an Internet website. Regulatory authorities and veterinarian customers have been advised of this situation, along with the elements of the counterfeited product that clearly distinguish it from legitimate HIPPIRON*™ *1000*. The Company reported that *HIPPIRON*™ *1000* from Bioniche fully complies with regulatory standards and is safe for use as recommended. Bioniche sells this injectable iron-sucrose product exclusively to veterinarians and it is the only licensed product of its kind available for veterinary use in Canada.

Butequine™ Product Launch and Additional Products for Canada

On August 20, 2012 the Company announced that is has launched a new product in the U.S. — *Butequine*™ *Paste* — for the relief of inflammatory conditions associated with the musculoskeletal system in horses. Bioniche is the exclusive distributor of this product, manufactured by Med-Pharmex Inc., a U.S.-based contract manufacturer.

Bioniche has also acquired exclusive Canadian distribution rights to an additional six products from Med-Pharmex, including topical products for dogs and cats, an anti-diarrheal product for dogs, cats, horses and cattle, and nutritional supplements for calves. Med-Pharmex will manufacture all of these products for Bioniche.

Animal Health Product Distribution Agreements

During Fiscal 2013 and to date, the Company announced the signing of distribution agreements providing Bioniche Animal Health with exclusive distribution rights for various new products:

- Agreement with a U.S.-based veterinary pharmaceutical company for distribution of *MitoHorse*™, an equine probiotic — announced on August 13, 2012;
- Exclusive agreement with a U.S.-based distributor for distribution of *Immunocidin*™ — announced on November 21, 2012.

E. coli O157 Vaccine to be Used in an On-Farm Intervention Study in Sweden

In April, 2013, the Company announced that its *E. coli* O157 cattle vaccine (*Econiche®*) is being shipped to Sweden for on-farm studies in some Swedish cattle herds. The Swedish National Veterinary Institute, Swedish Animal Health Service AB and the Swedish Board of Agriculture have collaborated with Bioniche to arrange for the vaccine to be granted Special Treatment Certification for this purpose.

Sweden has been testing and monitoring both cattle farm and slaughterhouse samples for verotoxigenic *E. coli* (VTEC) for more than three years. The results of this testing have been correlated to human illness due to VTEC. While more than one type of VTEC has been associated with human illness in Sweden, a particular sub-group of the O157 strain, clade 8, has consistently been associated with the most severe cases of human illness in that country.

Sweden has been working with on-farm control measures for VTEC that causes severe disease, and also has plans for a future control program with involvement of the veterinary organizations representing the farmers. If the initial on-farm evaluation of *Econiche®* works for Swedish conditions, the Swedish collaborators expect to eventually progress to a larger, multi-farm vaccination study in certain areas where verotoxigenic O157 strains of clade 8 predominate.

Special Treatment Certificate Issued for Importation of *E. coli* O157 Vaccine into the United Kingdom

In August, 2012, the Company announced that the Veterinary Medicines Directorate (VMD) of the Department for the Environment, Food and Rural Affairs in United Kingdom has approved the importation of the Company's cattle vaccine against *E. coli* O157 for use under the conditions of a Special Treatment Certificate (STC).

STCs are issued to veterinary surgeons when an appropriate remedy for an animal disease is not available in the UK, but can be accessed from another country. In this precedent-setting case, the VMD recognised that, although *E. coli* O157 does not cause illness in ruminants, the bacterium occurs naturally in domestic cattle and they are the primary reservoir of this human pathogen.

In the longer term, the Company advised that it will be pursuing formal regulatory approvals in Europe. This will require that the vaccine meets Good Manufacturing Practices (GMP) production standards. The Company's Animal Health and Food Safety Vaccine Manufacturing Centre in Belleville, Ontario is currently undergoing GMP validation.

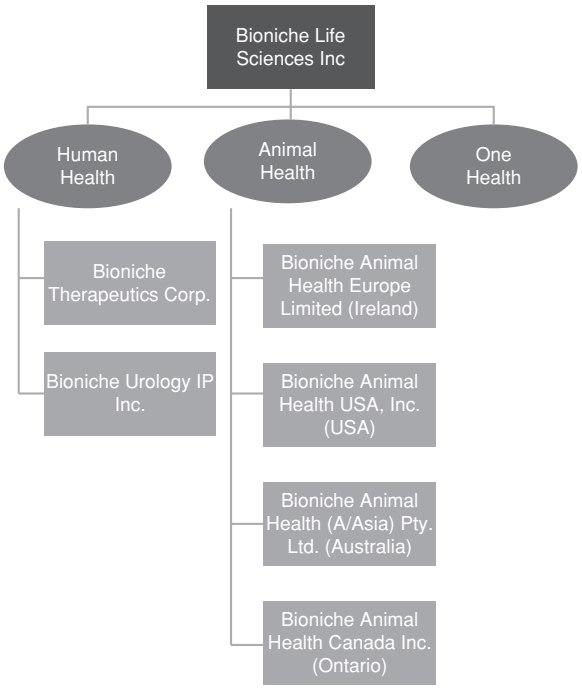
A predecessor of Bioniche was founded as an Animal Health company in 1979 by Graeme McRae, current President and Chief Executive Officer, who believed that the major veterinary pharmaceutical companies were not putting sufficient research effort into alternatives to antibiotics as treatments for livestock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

Securities in the Company commenced public quotation on Toronto Stock Exchange on February 1, 1992 (TSX Code: BNC) and have remained continuously quoted on the TSX since that date. As of January 27, 2011, the Company commenced public quotation on the Australian Securities Exchange (ASX Code: BNC).

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

Operations

Bioniche Life Sciences Inc. is a research-based, technology driven, biopharmaceutical company headquartered in Belleville, Ontario, Canada. It seeks to discover, develop, manufacture and market proprietary products for human and animal health markets worldwide. Today, the Company employs 202 people within three principal operating divisions. The Company has traditionally generated the majority of its operating revenue from its Animal Health Division, through which products primarily related to livestock reproduction and equine performance are sold globally. This Division and potentially the One Health Division, are being divested.



Market for Securities

The Company's Common Shares have been traded under the symbol "BNC"on the TSX since February, 1992. As of January 27, 2011, the Company commenced public quotation under the symbol "BNC"on the ASX. The chart below sets out the movements in the Company's Share price on the TSX and ASX over the period from July 1, 2012 to June 30, 2013 (Fiscal 2013).

Toronto Stock Exchange (TSX)

Month	Average High	Average Low	Average Close	Total Volume
July, 2012	0.66	0.385	0.58	1,430,998
August, 2012	0.69	0.52	0.56	1,520,840
September, 2012	0.58	0.42	0.45	1,538,360
October, 2012	0.58	0.44	0.46	2,092,407
November, 2012	0.495	0.275	0.35	3,728,240
December, 2012	0.42	0.29	0.32	2,325,099
January, 2013	0.345	0.285	0.3	2,951,291
February, 2013	0.31	0.19	0.225	2,577,738
March, 2013	0.33	0.24	0.28	2,324,830
April, 2013	0.34	0.18	0.23	10,729,754
May, 2013	0.40	0.22	0.35	3,899,671
June, 2013	0.385	0.28	0.33	1,877,306
TOTAL/AVERAGE	**0.46**	**0.31**	**0.37**	**36,996,534**

Australian Securities Exchange (ASX)

Month	Average High	Average Low	Average Close	Total Volume
July, 2012	0.53	0.395	0.53	383,769
August, 2012	0.645	0.55	0.59	151,320
September, 2012	0.52	0.40	0.40	198,072
October, 2012	0.515	0.405	0.45	234,846
November, 2012	0.40	0.34	0.34	27,000
December, 2012	0.38	0.32	0.32	15,931
January, 2013	0.30	0.25	0.25	27,293
February, 2013	0.25	0.20	0.20	79,607
March, 2013	0.23	0.23	0.23	17,276
April, 2013	0.22	0.22	0.22	6,931
May, 2013	0.35	0.19	0.35	300,711
June, 2013	0.30	0.30	0.30	31,304
TOTAL/AVERAGE	**0.39**	**0.32**	**0.35**	**1,474,060**

Copies of news releases about major announcements relating to the Company's operations are accessible at www.SEDAR.com, www.ASX.com.au, or on the Company website at www.Bioniche.com.

For more information about the Company's operations, please refer to the Fiscal 2013 Annual Information form available on www.SEDAR.com, www.ASX.com.au, or on the Company website at www.Bioniche.com.

Preface

The following discussion and analysis is the responsibility of management and should be read in conjunction with the Company's audited annual consolidated financial statements as at June 30, 2013 and 2012 and for the years then ended, and notes included herewith, which have been prepared in accordance with International Financial Reporting Standards (IFRS) which can be found on SEDAR (www.SEDAR.com) and www.asx.com.au. This review was prepared by management from information available as at September 26, 2013.

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

The cautionary statements made in this report should be read as applying to all related forward-looking statements wherever they appear in this report. The Company's future results could differ materially from those discussed here. Factors that could cause or contribute to these differences include those discussed under "Risks and Uncertainties". The reader is cautioned not to rely on these forward-looking statements and the Company disclaims any obligation to update these forward-looking statements unless required to do so by applicable Securities laws. All subsequent forward-looking statements, whether written or orally attributable to the Company or persons acting on its behalf, are expressly qualified in their entirety by these cautionary statements. All amounts are in Canadian dollars unless otherwise indicated.

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

Basis of Preparation and Presentation

The consolidated financial statements for the Canadian-resident Company have been prepared in accordance with IFRS and are presented in thousands of Canadian dollars. The consolidated financial statements have been prepared on a going concern basis (see going concern uncertainty — note 1).

Overview of Business, Operations and Current Direction

Overview of Business

The Company is a research-based, technology driven, biopharmaceutical company headquartered in Belleville, Ontario, Canada. It seeks to discover, develop, manufacture and market proprietary products for human and animal health markets worldwide. The Common Shares have been traded on the TSX since February, 1992. As of January 27, 2011, the Company commenced public quotation on the ASX.

The Company employs 202 people and has three operating business units: Animal Health, Human Health, with a Phase III bladder cancer product, and One Health, with the world's first registered cattle vaccine for *E. coli* O157 and a state-of-the-art vaccine manufacturing facility nearing GMP validation.

The Company, originally known as Vetrepharm Animal Health Inc., was founded as an animal health company in 1979 by Graeme McRae, current President and Chief Executive Officer of the Company, with the support of almost 100 Canadian veterinarians. Mr. McRae believed that the major veterinary pharmaceutical companies were not putting sufficient research effort into alternatives to antibiotics as treatments for livestock disease and, consequently, the Company has had a longstanding mission to develop, manufacture and distribute immunotherapeutic technologies, vaccines, and other natural products to treat infectious diseases as alternatives to antibiotics and hormone therapies in livestock. As the underlying development initiatives evolved, some of the emerging technologies were found to have human health indications as well, and the Company reorganized to enable a broader development program funded in part from an active and growing animal health business and through equity issues, debt and government assistance.

Segment Operations

The Company has decided to divest its Animal Health business and focus on its Human Health business. In Fiscal 2013 and 2012, the Company derived most of its operating revenue from its Animal Health segment, which has a portfolio of more than 60 products. The Company is also commercializing two canine cancer products developed from its proprietary immunotherapeutic technology platform, the first of which, Immunocidin™, was launched in the U.S. in October, 2012 and in Canada in January, 2013. The second product, Oncocidin™, is expected to be launched in North America in late 2014.

Through its Human Health segment, the Company is seeking to commercialize Urocidin™ — a treatment for non-muscle-invasive bladder cancer in humans. This is the first indication for the Company's mycobacterial cell wall immunotherapeutic technology. Commercialization is expected in Canada in the next 24 months, followed by other markets as regulatory pathways are completed.

The Company's One Health segment's activities include Econiche® and a vaccine manufacturing centre ["VMC"]. Econiche® is a vaccine developed to prevent the spread of *E. coli* O157 by cattle and reduce human exposure to the deadly strain of *E. coli* bacteria from contaminated food, water and environmental sources. This product is the first fully registered vaccine of its kind. The VMC is a state-of-the-art vaccine manufacturing facility located at the Company's Belleville, Ontario, headquarters and is nearing GMP validation.

Current Direction

Over the course of the past year, the Company and its Board of Directors [the "Board"] have been faced with the challenges of funding the commercialization efforts for Urocidin™, Econiche® and new Animal Health product launches, as well as providing for further growth of the Animal Health business. It became clear that the Company could not support the full scope of its initiatives and realize the shareholder value embedded within them in a timely fashion. As well, it became clear that the capital markets were not sufficiently supportive of continued investment and growth in asset values at the expense of liquidity. Accordingly, in 2012, the Company began considering opportunities to enable it to achieve the full potential from commercialization of its technologies and optimize its activities to maximize shareholder value. As a result, the Board decided to divest the Animal Health business and sell or partner the One Health business. As at June 30, 2013, the assets related to the Animal Health segment have been presented as held for sale and the results of operations of this segment have been presented as discontinued operations for Fiscal 2013 and 2012. The discussion below reflects the related impacts on the Company's consolidated financial statements.

Recent Developments

DEBT REFINANCING

In the last quarter of Fiscal 2013, Bioniche's existing debt facility with Capital Royalty Partners II L.P. and its affiliates ["Capital Royalty"] was acquired by Paladin Labs Inc. ["Paladin"] for approximately $22 million (including accrued interest and fees). On July 5, 2013 Paladin and Bioniche also entered into an amended loan transaction whereby Paladin agreed to provide an additional $8 million loan [the "Paladin Loan"] to support Bioniche's ongoing operations, $5 million of which became available immediately and $3 million of which was to be drawn upon the completion of a public offering or license agreement. Under the amended debt facility, the loan will mature on July 1, 2014, the covenant to maintain minimum liquidity has been reduced from $5 million to $2.5 million, the interest rate has been reduced from 15% to 13.25% payable in full on a quarterly basis, and prepayment fees were reduced.

As part of these arrangements, Paladin was granted Common Share Purchase Warrants to purchase 3,000,000 Common Shares until the earlier of May 31, 2019 or two years after full repayment of the Paladin Loan.

SALE OF ANIMAL HEALTH

In the summer of 2012, the Board began to explore alternatives with parties interested in its Animal Health business, with a particular focus on distribution rights and product sales. Through that process, the potential value of the business was reinforced by third-party interest, and the Board and management began considering a potential sale of the Animal Health business.

Having received several expressions of interest for the Animal Health business, Bioniche engaged Evercore on May 13, 2013 to assist the Board and management of the Company in a divestment process for Animal Health. Evercore is a U.S.-based independent advisory firm that specializes in merger and acquisition transactions, divestitures and restructurings. Following the announcement of the Company's intention to divest its Animal Health business, a number of parties stepped forward expressing interest, including several major global animal health companies. Interested parties have submitted non-binding expressions of interest from which a short-list of counterparties was chosen. Such counterparties are

conducting due diligence on the business. Final binding terms are expected to be submitted to the Company by the end of October, 2013.

ONE HEALTH

On August 7, 2012, the Veterinary Medicines Directorate ["VMD"] of the Department for the Environment, Food and Rural Affairs in the United Kingdom approved the importation of the Company's cattle vaccine against *E. coli* O157 for use under conditions of a Special Treatment Certificate. In this precedent-setting case, the VMD recognised that, although *E. coli* O157 does not cause illness in ruminants, the bacterium occurs naturally in domestic cattle and they are the primary reservoir of this human pathogen.

In mid-April, 2013, the vaccine was shipped to Sweden for on-farm studies in some Swedish cattle herds. The Swedish National Veterinary Institute, Swedish Animal Health Service AB and the Swedish Board of Agriculture have collaborated with the Company to arrange for the vaccine to be imported for this purpose. Sweden has been testing and monitoring both cattle farm and slaughterhouse samples for verotoxigenic *E. coli* ["VTEC"] for more than three years. The results of this testing have been correlated to human illness due to VTEC. While more than one type of VTEC has been associated with human illness in Sweden, a particular sub-group of the O157 strain, clade 8, has consistently been associated with the most severe cases of human illness in that country.

GMP validation work continues in the Animal Health and Food Safety VMC in Belleville, Ontario. GMP validation enables the Company to manufacture products in all major markets including the U.S. and Europe. The Company is now in the last stages of the validation process, which involves media fill validation. This is a two-step initiative requiring three successful batches to be run consecutively in the 5,000-litre fermentor and three consecutive batches to be run on the filling line with a minimum of 5,000 vials per batch filled successfully. Three consecutive batches have been run in the 5,000-litre fermentor and the documentation in respect thereof is under final review by the Company.

The Company plans to pursue contract manufacturing and bring two of its Animal Health products that are currently being manufactured by an external contract manufacturer in-house into the VMC. This strategy will help secure the long-term supply of these products as well as utilize the capacity of the VMC with commercial products.

As additional products are identified to be made in the facility, the Company will file requests for marketing authorization to the appropriate government authorities, which may trigger further facility audits by those authorities.

The Company is currently considering a potential sale or partnering of the One Health business, or portions thereof.

HUMAN HEALTH

On January 3, 2013, the Company announced the entering into of a termination agreement pursuant to which the global rights to Urocidin™ were returned to the Company from Endo Pharmaceuticals Inc. ["Endo"]. In exchange for this agreement, Endo will receive a 5% royalty on future net sales revenue for a term of 10 years from the first commercial sale of the product or, on a country by country basis, until the last of the valid patent claims covering the product has expired or been invalidated. Sponsorship of Urocidin™ was officially returned to Bioniche from Endo on April 1, 2013.

The termination of the partnership with Endo and its cessation of the Endo Phase III clinical trial with Urocidin™ created an opportunity for the Company to regain control over and complete the development of Urocidin™ and consequently retain a greater share of its potential value.

Clinical evidence gathered in previous Phase II and III clinical studies gives Bioniche confidence that Urocidin™ is an approvable treatment for human bladder cancer. More than 30 companies have expressed an interest in partnering on Urocidin™. This high level of interest reflects confidence on the part of potential partners in the data generated to date, including the Phase III study that Bioniche conducted which showed a 25% disease-free survival rate after one year of treatment among 129 patients who had failed the current frontline therapy and were facing removal of the bladder. Bioniche has entered into the first license with Paladin to market and distribute Urocidin™ in Canada, South Africa and Mexico, under a revenue sharing arrangement. Bioniche will be responsible for all product development and manufacturing costs, including, but not limited to, the costs related to obtaining regulatory approval, and Paladin will be responsible for all sales and marketing costs in these territories. The license also provides a series of potential sales performance milestones that may total up to $16 million during the term.

EQUITY FINANCING

On September 18, 2013, the Company filed an underwritten public offering and, on September 26, 2013, issued 33,808,621 Units at a price of $0.29 per unit for gross proceeds of $9.8M including $0.8M from a private placement. Each unit is composed of one Common Share and one-half of

one Common Share Purchase Warrant. Each whole Share Purchase Warrant entitles the holder to acquire one Common Share at a price of $0.40 per Common Share until September 18, 2015. Expenses of the offering include 7% agent fees of $0.7M, the issuing of 2,172,414 two-year compensation Warrants to purchase one Common Share at a price of $0.29 and the issuing of 194,190 two-year finder Options to purchase one Common Share at a price of $0.33.

The net proceeds from the Offering will be used to support the development of the Company's Phase III bladder cancer product, Urocidin™, and for general corporate purposes. This additional funding will help to ensure that the Company is adequately capitalized as it completes the divestment of its Animal Health business unit.

Financial Performance

Results of Operations

Selected Annual Financial Information

	Year ended June 30, 2013	Year ended June 30, 2012	Year ended June 30, 2011
Revenue from continuing operations	**82**	1,986	7,192
Net loss from continuing operations	**(33,791)**	(23,294)	(13,975)
Total loss for the year	**(30,443)**	(24,188)	(12,508)
Basic and fully diluted net loss per share	**(0.29)**	(0.24)	(0.14)
Total assets	**61,503**	82,152	79,789
Total liabilities	**74,045**	66,404	41,181

Research collaboration revenue arose from the reimbursement of development costs from Endo Health Solutions Inc. ["Endo"] pursuant to a license, development and supply agreement announced in July, 2009. This revenue was $2.0M in Fiscal 2012, and $0.1M in Fiscal 2013, with Fiscal 2013 reflecting the announced termination of this agreement, which is further discussed below. The variation in the net loss from continuing operations over the last two years reflects higher financial expenses incurred by the Company, loss on foreign exchange, an increase in research and development spending, and decreased licensing revenues. The decrease in total assets over the three periods is largely due to a decrease in cash and cash equivalents as a result of increased spending on research and development activities, and higher financial expenses.

Consolidated Financial Results for the Years Ended June 30, 2013 and 2012

The following table sets out the Company's condensed Consolidated Statements of Loss and Comprehensive Loss for Fiscal 2013 and 2012.

CONDENSED CONSOLIDATED STATEMENTS OF LOSS FROM CONTINUING OPERATIONS

For the year ended June 30,	2013 $	2012 $
Revenues from continuing operations	**82**	1,986
Expenses — continuing operations		
Administration	**6,267**	7,191
Marketing and selling	**933**	1,188
Net Research and Development	**16,259**	14,204
Interest, taxes and foreign exchange	**10,414**	2,697
Net loss for the period from continuing operations	**(33,791)**	(23,294)

CONSOLIDATED REVENUES

In both the years ended June 30, 2013 and 2012, revenue was entirely derived from research collaboration activity related to a license, development and supply agreement with Endo. In Fiscal 2013, this revenue amounted to $0.1M, a decrease of $1.9M over Fiscal 2012. Most of the collaboration revenue, together with its related expenses, was expected to reduce over time as the pre-clinical studies to which it relates are completed. However, the large decrease in Fiscal 2013 was primarily as a result of the termination of the agreement as discussed above.

In June of 2013, Bioniche entered into the first license agreement with Paladin to market and distribute Urocidin™ in Canada, South Africa and Mexico, under a revenue sharing arrangement. Bioniche will be responsible for all product development and manufacturing costs, including, but not limited to, the costs related to obtaining regulatory approval, and Paladin will be responsible for all sales and marketing costs in these territories. The license also provides a series of potential sales performance milestones that may total up to $16M during the term.

ADMINISTRATION AND OTHER EXPENSES

Administration expenses decreased to $6.3M in Fiscal 2013 from $7.2M in Fiscal 2012. Most of the year-over-year change is as a result of a reduction in wages and salaries as administrative expenses in Fiscal 2012 included approximately $1.0M in severance and related benefits with respect to executive departures, primarily in the last quarter of that fiscal year.

MARKETING AND SELLING

Marketing and selling expenses have decreased by $0.2M for the year ended June 30, 2013 over Fiscal 2012. This variation is attributable to normal variations in the timing of some of these expenditures.

FINANCIAL EXPENSES

Interest and financing expenses include both non-cash and cash interest components. For the year ended June 30, 2013, the most important component of financial expenses was the loss on extinguishment of the Capital Royalty loan in the amount of $8.2M (see "Recent Developments" — "Debt Refinancing" above).

The Company regularly carries on a re-measurement of the obligation pertaining to the royalties payable in the future to Industry Canada as part of the government assistance provided for the development of *Urocidin*™ and *Econiche*®. For the year ended June 30, 2013, the Company recorded a gain of $7.0M due to a change in the estimated repayable government assistance arising from changes in timing and extent of future sales forecasts. Interest accretion expense related to government assistance loans amounted to $2.6M and $2.3M in Fiscal 2013 and 2012 respectively.

For the year ended June 30, 2013, cash interest on long-term debt amounted to $3.1M compared to $1.0M while accretion expense rose to $2.5M compared $0.5M a year earlier. The addition of the Capital Royalty loan at the end of Fiscal 2012 explains the increase in both cash and non-cash interest expense.

Please refer to note 11 — Long-term debt — and note 21 — Financial expenses — for a more detailed description of these financial instruments.

GROSS RESEARCH & DEVELOPMENT

For the year ended June 30,	2013 $	2012 $
Segment		
One Health	**7,231**	3,501
Human Health	**9,536**	10,992
Research and Development, Gross	**16,767**	14,493

RESEARCH AND DEVELOPMENT — HUMAN HEALTH SEGMENT

Research and development decreased by $1.5M in the year ended June 30, 2013 to $9.5M from $11.0M in the year ended June 30, 2012. Human Health R&D activities have been reduced as the comparative trial conducted by Endo wound up and pre-clinical activities were completed. The majority of Human Health expenditures are focused on the maintenance of pilot manufacturing facilities required to support clinical trials and commercialization.

RESEARCH AND DEVELOPMENT — ONE HEALTH SEGMENT

Research and development increased by $3.7M in the year ended June 30, 2013 to $7.2M from $3.5M in the year ended June 30, 2012. Included in research and development expenses is an impairment loss of $3.7M related to the VMC, which is discussed in greater detail below in the "Consolidated Statement of Financial Position Highlights and Statement of Cash Flows Highlights" section. Absent this non-cash expense, research and development expenditures remained stable year-over-year.

GMP validation work continues in the VMC. GMP validation enables the Company to manufacture products in all major markets including the U.S. and Europe. The Company is now in the last stages of the validation process, which involves media fill validation.

FOREIGN EXCHANGE

For the year ended June 30, 2013, the Company recorded a loss on foreign exchange of $1.9M compared to a gain of $0.4M in 2012. This change is essentially the result of the unrealized exchange loss recognized at the end of the year from the conversion of the long-term debt denominated in U.S. dollars. The U.S. exchange rates as at June 30, 2013 and 2012 were 1.0459 and 1.0251 respectively.

CONSOLIDATED NET LOSS AND COMPREHENSIVE LOSS

For the year ended June 30, 2013, the net loss before discontinued operations was $33.8M, compared to $23.3M for the same period a year earlier. The increase in the loss is primarily due to a combination of factors discussed above including higher financial expenses, foreign exchange loss, non-cash impairment of the VMC, and lower research collaboration revenues. The profit from discontinued operations amounted to $3.3M for the year ended June 30, 2013, compared to a loss of $0.9M in 2012. Total comprehensive loss for the year was $29.7M, compared to $24.1M in Fiscal 2012. For Fiscal 2013, the basic and fully diluted loss per Share was ($0.29), compared to a loss per Share of ($0.24) in Fiscal 2012.

Consolidated Financial Results for the Fourth Quarter Ended June 30, 2013 and 2012

CONSOLIDATED REVENUES

There was no milestone or collaborative research revenue in the fourth quarter of Fiscal 2013, while the Company had recognized $0.2M from research collaboration activities in Fiscal 2012.

ADMINISTRATION AND OTHER EXPENSES

The year-over-year increase in administration expense for the fourth quarter results from the timing of certain expenses and higher legal and consulting expenses.

MARKETING AND SELLING

Marketing and selling expenses remained stable for both quarters.

FINANCIAL EXPENSES

Financial expenses for the fourth quarter were $5.6M. As explained in the analysis for the year, the extinguishment of the Capital Royalty loan, which occurred in the fourth quarter of Fiscal 2013, was somewhat offset by the reduction in repayable government assistance. The latter arose from changes in timing and extent of future sales forecasts. During the same period last year, the Company had started to record interest on the Capital Royalty loan.

RESEARCH AND DEVELOPMENT

For the quarter ended June 30, 2013, the net research and development expenses totaled $6.9M, or an increase of $3.1M compared to last year, included in these expenses for the fourth quarter of Fiscal 2013 is an impairment loss of $3.7M related to the VMC, which is discussed in detail in the "Consolidated Statement of Financial Position" and "Statements of Cash Flows Highlights" sections below.

CONSOLIDATED NET LOSS AND COMPREHENSIVE LOSS

For the quarter ended June 30, 2013, the net loss before discontinued operations was $14.9M, compared to $8.4M for the same period a year earlier. The increase is primarily due to a combination of factors discussed above, including higher financial expenses, non-cash impairment of the VMC, and lower research collaboration revenues.

Previous Eight Quarters

The following table sets out a summary of the Company's revenues from continuing operations, loss from continuing operations and the loss per Share from continuing operations over the previous eight quarters:

SUMMARY OF QUARTERLY RESULTS

(expressed in millions of Canadian dollars)

	2013 $				2012 $			
	Q4	**Q3**	**Q2**	**Q1**	Q4*	Q3*	Q2	Q1
Revenues from continuing operations	**—**	**—**	**—**	**0.1**	0.2	0.4	0.7	0.7
Net Income (loss) from continuing operations	**(14.9)**	**(5.9)**	**(6.2)**	**(6.8)**	(8.4)	(5.2)	(4.9)	(4.8)
Basic and fully diluted net income (loss) per Share from continuing operations	**(0.14)**	**(0.06)**	**(0.06)**	**(0.07)**	(0.08)	(0.05)	(0.05)	(0.05)

* *Restated to reflect change in actuarial value on pension benefit and correct re-measurement of royalty obligation.*

Discontinued Operations

RESULTS OF DISCONTINUED OPERATIONS

In the fourth quarter of the year ended June 30, 2013, the Company formally commenced the process to divest its Animal Health business in order to concentrate on becoming a Human Health company. The sale is expected to be completed within the next 12 months. At June 30, 2013, the Animal Health business' assets and liabilities and its results of operations were classified as discontinued operations.

This decision has had a significant impact on the consolidated results of operations of the Company, as this segment was a long-established business, reporting reasonably predictable revenues and gross margins over a number of years. The results of operations of the Animal Health business segment (which was also a reportable segment for financial reporting purposes) for the years ended June 30, 2013 and 2012 were as follows:

DISCONTINUED OPERATIONS RESULTS OF ANIMAL HEALTH BUSINESS

For the year ended June 30,	2013 $	2012 $
Revenues	**31,467**	29,812
Expenses	**27,817**	30,597
Loss before income taxes	**3,650**	(785)
Income taxes	**302**	109
Net income (loss)	**3,348**	(894)
Basic and fully diluted earnings per Share from discontinued operations	**0.03**	(0.01)

Consolidated Statement of Financial Position and Statement of Cash Flow Highlights

CONSOLIDATED STATEMENT OF FINANCIAL POSITION HIGHLIGHTS

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

For the year ended June 30,	2013 $	2012 $
Assets		
Cash and cash equivalents	**4,241**	20,020
Trade receivables and other current assets	**2,206**	15,644
Property, plant and equipment	**31,213**	40,134
Other long-term assets	**3,740**	6,354
Assets classified as held for sale	**20,103**	—
Total Assets	**61,503**	82,152
Liabilities		
Trade and other payables	**5,299**	6,713
Current portion of long-term liabilities	**50,106**	1,457
Long-term liabilities	**14,668**	58,234
Liabilities related to assets classified as held for sale	**3,972**	—
Total liabilities	**74,045**	66,404
Shareholders' equity (deficiency)	**(12,542)**	15,748
Total liabilities and shareholders' equity	**61,503**	82,152

Assets

Cash and cash equivalents decreased from $20.0M to $4.2M, primarily as a result of cash used to support its continuing operations. At June 30, 2013, trade receivables and other current assets had decreased by $13.4M from June 30, 2012. This decrease is explained primarily by the presentation of $4.1M in trade receivables, $8.0M in inventories, and $0.7M in other current assets to assets held for sale in connection with the decision to sell the Animal Health business discussed above.

At June 30, 2013, property, plant and equipment ["PP&E"] decreased by $8.9M from June 30, 2012, primarily as a result of the transfer of PP&E with a net book value of $5.7M to assets held for sale and an impairment loss of $3.7M related to the Company's VMC in the One Health segment.

This impairment loss was taken as a result of review of the recoverable amount of these assets prompted by delays in the commencement of commercial production at the facility. The recoverable amount of the assets was determined on the basis of their value in use. The weighted average discount rate used in measuring the value in use was approximately 18.5% per annum.

As a result of the decision to sell the Animal Health business, the following assets have been presented as held for sale as at June 30, 2013:

Statement of Financial Position for the Animal Health business	As at June 30, 2013 $
ASSETS	
Current	
Cash and cash equivalents	**345**
Trade and other receivables	**4,066**
Inventories	**7,989**
Prepayments	**366**
	12,766
Non-current	
Property, plant and equipment	**5,682**
Intangible assets	**857**
Goodwill	**456**
Deferred tax assets	**342**
Total assets	**20,103**

Liabilities

Trade and other payables decreased by $1.4M at June 30, 2013, amounting to $5.3M as compared to $6.7M at June 30, 2012; however, this is after presenting $3.2M in these liabilities as liabilities related to assets held for sale. Adjusting for this change in presentation results in an increase of $1.8M, which is a result of cash conservation policies.

The current portion of long-term liabilities as at June 30, 2013 increased by $48.6M to $50.1M, while long-term liabilities decreased by $43.6M to $14.7M.

The change in presentation from short-term to long-term of approximately $34M in long-term debt and $15M in repayable government assistance is a result of the announcement of the sale of the Animal Health division; it is expected that these liabilities will be repaid with the proceeds of the sale. Other adjustments to the total increase in long-term liabilities (including current portion) of $5.0M consist mainly of debt extinguishments and the recording of replacement debt, changes in estimates and capital repayments of $1.4M. Please refer to note 11 — Long-term debt — and note 12 — Repayable government assistance.

Liabilities related to the assets held for sale are $3.9M and consist of $3.2M in trade payables, $0.5M in debt, and $0.2M in taxes payable.

Statement of Cash Flow Highlights

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended June 30,	2013 $	2012 $
Summary cash flows		
Cash (used in) provided by operating activities	**(13,340)**	(14,657)
Cash (used in) provided by investing activities	**(816)**	(3,038)
Cash (used in) provided by financing activities	**(1,399)**	22,362
Effect of foreign exchange differences on cash	**121**	—
Net (decrease) increase in cash	**(15,434)**	4,667
Ending cash	**4,586**	20,020

The Company's cash flow used in operations for the year ended June 30, 2013 was $13.3M, as compared to cash used in operations of $14.7M in the year ended June 30, 2012, with differences primarily related to normal fluctuations during the year.

The Company's investing activities used cash of $0.8M during the year ended June 30, 2013, as compared to $3.0M during the year ended June 30, 2012. The prior year amount included $4.3M for the completion of the VMC.

The Company's financing activities during the year ended June 30, 2013 used $1.4M, comprised of $0.6M for the repayment of senior debt, $0.4M for capital lease repayments, and $0.4M for the repayment of government assistance. The Company's financing activities provided $22.4M during the year ended June 30, 2012 from the closing of the Capital Royalty debt financing of US$20.0M and $2.8M from the final Business Development Bank of Canada (BDC) disbursement for the VMC.

CASH FLOW FROM CONTINUING OPERATIONS

Cash flow from continuing operations used in operating activities for the year ended June 30, 2013 was $19.0M, compared to $15.7M in Fiscal 2012. During Fiscal 2013, the Animal Health business unit, which is now classified as discontinued operations, contributed approximately $5.6M, while it contributed only $1.1M in Fiscal 2012. The impact of the discontinued operations on investing activities was not significant, while Animal Health made repayments of $0.2M in each period. For Fiscal 2013, the decrease in cash from continuing operations was $21.0M, compared to an increase in cash of $3.8M for Fiscal 2012.

TREASURY OPERATIONS

The Company's treasury policy is to invest cash that is not required immediately into short-term instruments with an investment strategy based on capital preservation. Such investments are primarily made in guaranteed investment certificates (GICs) and high-interest savings accounts, both of which are issued by Canadian chartered banks. At June 30, 2013 and 2012, substantially all of the Company's liquidities were held in cash.

Going Concern Uncertainty, Liquidity, Capital Resources and Contractual Obligations

Going Concern

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ["IFRS"] on a going concern basis, which presumes the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the ordinary course of business for the foreseeable future. The use of these principles may not be appropriate because, as at June 30, 2013, there was substantial doubt as to the Company's ability to continue as a going concern without a successful sale of the Animal Health business and/or having access to additional financial resources.

At June 30, 2013, the Company has incurred significant losses, had an accumulated deficit of $149M, and had a shareholders' deficiency of $12.5M. The Company is considering a number of financing alternatives and, as disclosed in note 24 of the consolidated financial statements, has issued 33,808,621 Units comprising one Common Share and one-half Share Purchase Warrant with net proceeds amounting to approximately $8.9M. The Company has also received additional proceeds from its loan agreement with Paladin Labs subsequent to June 30, 2013 [note 11] in the amount of $5.2M. In addition, the Company has engaged an independent advisory firm that specializes in merger and acquisition transactions, divestitures and restructurings to divest its Animal Health business. The Company may also consider additional debt and/or equity financing, licensing arrangements, and the monetization of assets through the sale or strategic partnering of technologies under development, including the sale or partnering of the VMC. The Company's committed cash obligations and expected level of expenses for the next twelve months exceed its committed sources of funds at June 30, 2013, even after taking into consideration the additional debt and equity financing received subsequent to year-end.

If the Company is unable to accomplish these initiatives or do so at values acceptable to the Company, both of which are outside of management's control, the Company will be required to curtail its development activities and dispose of its remaining assets and businesses.

Liquidity

The Company has maintained adequate liquidity and has financed its losses and accumulated deficits over the past three years, principally from the following transactions:

- On July 10, 2009, the Company signed a license, development and supply agreement with Endo Health Solutions Inc. ["Endo"] that provided US$20M, followed by US$14M and US$4M in milestone revenues in the years ended June 30, 2010 and 2011, respectively;
- The Company raised an additional $28.9M of gross proceeds ($26.0M net of transaction costs) through two concurrent offers in Canada ($16.7M) and Australia ($12.2M) in December, 2010 and January, 2011, respectively; and

- In June, 2012, the Company completed a debt financing in the amount of US$20M (C$19.9M) from investment funds managed by U.S.-based Capital Royalty.
- In June, 2013, Bioniche's existing debt facility with Capital Royalty was acquired by Paladin for approximately $22M (including accrued interest and fees). On July 5, 2013, Paladin and Bioniche also entered into an amended loan transaction whereby Paladin agreed to provide an additional $8M loan to support Bioniche's ongoing operations, $5M of which became available immediately and $3M of which was to be drawn upon the completion of the public offering or a license agreement.
- In September, 2013, the Company completed an underwritten public offering and private placement, issuing 33,808,621 Units at a price of $0.29 per Unit for gross proceeds of $9.8M.

These additional sources of funding will help to ensure that the Company is adequately capitalized as it completes the divestment of its Animal Health business unit.

Capital Resources

As stated above, in June, 2013, the Company's existing debt facility with Capital Royalty was acquired by Paladin for approximately $22.0M (including accrued interest and fees). On July 5, 2013, Paladin and Bioniche also entered into the Paladin Loan to support Bioniche's ongoing operations, $5.0M of which became available immediately and $3.0M of which was to be drawn upon the completion of the Offering or a license agreement. Under the amended debt facility, the loan will mature on July 1, 2014.

Having received several expressions of interest for the Animal Health business, Bioniche engaged Evercore on May 13, 2013 to assist the Board and management of the Company in a divestment process for Animal Health. Following the announcement of the Company's intention to divest this business, a number of parties stepped forward expressing interest, including several major global animal health companies.

The Company is also currently considering a potential sale or partnering of the One Health business, or portions thereof.

If One Health is not sold, the Company will continue to develop the Canadian and international markets for Econiche® and to attain GMP validation for the VMC, as well as continue to seek buyers and/or partners for these assets.

The Company will use the proceeds from the sale of Animal Health to immediately repay its long-term liabilities. This will clear a significant portion of the Company's debt, resulting in a significant savings in financing costs going forward. The only material obligations that will remain outstanding are the repayable government assistance related to royalties on sales of Urocidin™ and Econiche® and a term loan related to Urocidin™ to the Government of Canada/Industry Canada. However, if the sale of Animal Health is delayed beyond July 1, 2014, the Company will need to seek additional financing to satisfy the repayment of, or refinance, the Paladin Loan, which matures on July 1, 2014.

The sale of Animal Health will be subject to, among other things, shareholder approval, and a vote is expected to be held at a separate special shareholders meeting to be held on a date after the date of the 2013 Annual Meeting. It is expected that purchasers of Units under the Offering will be entitled to vote in respect of the sale of Animal Health at such special shareholders' meeting, provided they remain a shareholder of the Company at the record date for such meeting.

At this time, there can be no assurance that either of these business units will be sold. If neither is sold, the Company will have to make alternative arrangements to repay or refinance the Paladin Loan by July, 2014. Once Animal Health is sold and debt is repaid, Bioniche will have no immediate product sales revenue and, accordingly, will have a negative operating cash flow or cash "burn" until such time as revenues can be generated from commercialization and/or the licensing of Urocidin™ or until Econiche® (if retained) gains market access and product revenues. If the Company sells or partners One Health and/or the VMC, the cash "burn" will be further reduced.

Commitments and Contingencies

Commitments

The Company is committed under various operating leases for buildings and equipment to total future minimum lease payments as follows:

	Continuing operations	Discontinued operations	Total $
Within one year	30	127	157
Between one and five years	51	209	260
More than five years	—	—	—
	81	336	417

Total operating lease expense recorded in the consolidated statements of loss for the year ended June 30, 2013 was $336 [2012 – $286].

In addition to the royalties described in note 12(a) of the consolidated financial statements, the Company is committed to paying royalties ranging from 1% – 5% as a result of certain license agreements on the sales of certain products on the commercialization of specific technologies or products.

Contingencies

The Company is involved from time to time in litigation, which arises in the normal course of business. In respect of these claims, the Company believes it has valid defenses and/or has made adequate provision for such claims. The Company believes that no material exposure exists on the eventual settlement of such litigation.

The Company participates in research and development funding arrangements, some of which, based on management's best estimates, are recorded as a reduction in the related cost and some as a deferred government incentives obligation. The funding arrangements are subject to audit by the contributors. Any adjustments which could be material will be made in the period in which they are known.

The Company periodically enters into research agreements with third parties that include indemnification provisions that are customary in the industry. These guarantees generally require the Company to compensate the other party for certain damages and costs incurred as a result of damages arising from these transactions. In some cases, the maximum potential amount of future payments that could be required under these indemnification provisions is unlimited. These indemnification provisions generally survive termination of the underlying agreement. The nature of the indemnification obligations prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay. Historically, the Company has not made any indemnification payments under such agreements and no amount has been accrued in the accompanying consolidated financial statements with respect to these indemnification obligations.

Accounting Policies and Estimates

Critical Accounting Policies and 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 International Financial Reporting Standards (IFRS). The Company has identified several significant accounting policies (as presented in note 2) that it believes require application of management's most subjective judgments, often requiring the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. The actual results could differ from these estimates and such differences could be material.

JUDGMENTS

In the process of applying the Company's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements.

Revenue

The Company assesses the criteria for recognition of revenue related to up-front payments and multiple components as outlined by IAS 18, Revenue. Judgment is necessary to determine over which period the Company will satisfy its obligations related to up-front payments and when components can be recognized separately and the allocation of the related consideration to each component.

Assets Held for Sale and Discontinued Operations

During the fourth quarter of Fiscal 2013, the Board of Directors issued a news release announcing the decision to sell the Animal Health reporting segment of the Company and, therefore, classified it as held for sale and its operations as discontinued operations. The Board considered the segment

to meet the criteria to be classified as held for sale at June 30, 2013 based on the following conditions:

- Animal Health is available for immediate sale and can be sold to a potential buyer in its current condition.
- Management has issued a request for proposals to potential buyers. There are a number of potential buyers who have been identified and several offers have already been tendered to the Company.
- The Company expects a sale to be completed within the next 12 months.

ESTIMATES

The significant assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Non-Financial Assets Impairment

The Company uses a "value in use" approach to determine recoverable amounts in relation to goodwill, intangible assets, and property, plant and equipment for each Cash Generating Unit ["CGU"] based on discounted cash flow models. The calculation of discounted cash flows for each CGU is sensitive to several underlying assumptions and risk factors, as follows:

1. Products emerging from development, regulatory timelines and approvals for products to be launched — Management considers the stage of development and expected time to complete regulatory approval in the preparation of long-term forecasts. No revenue is forecast for products in early-stage development. For products that have demonstrated successful results in completed studies, trials, and other testing as may be applicable under the circumstances, and for those that are already under review by applicable regulatory bodies if necessary, forecasts are developed based on the best estimate of the timing of completing any residual development activities and obtaining regulatory approvals. If, at any time, it becomes apparent that regulatory approval will require additional time, resources to complete commercialization, or if the product is unlikely to achieve approval, the related product forecast is amended. Final regulatory approval is not under the control of the Company and, consequently, forecasts and discounted cash flows are vulnerable to timelines required to achieve product approval.

2. Growth rates — Sales growth is estimated based on a variety of factors, including past growth experienced in existing markets, pricing considerations, estimates of target market populations based on health statistics and label claims, customer industry conditions, market exclusivity from patent protection, obtaining regulatory approval in foreign markets for existing products to support geographic expansion, and the overall economic value of the product to the user in contrast to alternate products and approaches to animal and human health-based therapies, as in the market today, or those known to be under development. Consequently, the value of the technology underlying the products is subject to variation arising from new products, emerging research, and customer industry markets, and these factors are integrated into the discounted cash flow models based on management's current analysis of such factors.

3. Foreign exchange — Over the past few years, foreign exchange rates against the Canadian dollar have varied considerably, the U.S. dollar in particular. The Company applies rates in effect as at the date the forecast is prepared, such that forecasts use the most current information available. Foreign currency variation in the forecast period is outside the control of the Company.

4. Discount rates and risk factors — Discount rates represent the current market assessment of the risks and capital costs for each CGU, taking into account the time value of money, market expectations of return on capital from debt, equity or other financial instruments. The discount rates are derived from an estimate of the Company's weighted average cost of capital ["WACC"], and take into account the costs of debt and equity specific to the Company, peer companies in our industry, and general macroeconomic factors such as beta factors and risk-free interest rates. For CGUs that require additional product or manufacturing development, namely, the VMC and MCC (Urocidin™), a discount rate of 18.5% for the VMC and 25% for MCC (Urocidin™) was used to account for the additional risks related to ultimate commercialization.

5. Forecasts — Cash flows are derived from forecasts prepared by management for a five-year period. For new products emerging from development, as described above, revenue forecasts are based on market analysis, estimates from distribution partners, competitive profiles of the market and pricing studies; accordingly, the discounted cash flows are sensitive to market analyses and estimates of future developments and circumstances that are not under the direct control of management.

As a result of these assumptions and risks, when non-financial assets including goodwill, property, plant and equipment and other intangible assets are tested for impairment, the determination of the assets' recoverable amount involves the use of significant estimates by management and

can have a material impact on the respective values and ultimately the amount of any impairment.

The VMC does not currently generate cash in-flows as the facility continues through its validation stages. Future cash flows are estimated using five-year forecasts with a terminal growth rate of 1%. The value in use considers the weighted average probabilities of several forecasted options, including various levels of contract manufacturing revenue and costs, as well as the timing of potential government support for vaccination programs in Canada and/or other countries, beginning in 2015 and scaling up over the following three years. Econiche® has been granted a full license in Canada and has also received approval for importation into Australia. The costs of remaining validation and development required have been included in the discounted cash flow models and analysis. At the end of Fiscal 2013, the VMC is still undergoing validation to assure international quality standards will be met and, as such, it is not yet ready for its intended use and is not being depreciated.

Stock-Based Compensation

The fair value of share-based payment transactions is estimated using a valuation model which, in turn, depends on the terms and conditions of the grant. The use of a valuation model requires the use of appropriate inputs including, but not limited to, the expected life of the Share Option and, the expected volatility of the Company's Common Shares over the period. The assumptions and model used for estimating fair value for share-based payment transactions are disclosed in note 14[d] of the consolidated financial statements.

Income Taxes

Estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income before they expire. The Company's assessment is based upon existing tax laws and estimates of future taxable income. If the assessment of the Company's ability to utilize the underlying future tax deductions changes, the Company would be required to recognize more or fewer of the tax deductions as assets, which would decrease or increase the income tax expense in the period in which this is determined. Please refer to note 18 for additional details.

Employee Future Benefit

The cost of the defined benefit pension plan as well as the present value of the pension obligation is determined using actuarial valuations. The actuarial valuations involve making assumptions about discount rates, future salary increases, mortality rates and future pension increases. All assumptions are reviewed at each reporting date. Any changes in these assumptions will impact the carrying amount of the pension obligation. In determining the appropriate discount rate, management considers the interest rates of corporate bonds denominated in Canadian dollars with an AA/AAA rating, and which best match the terms of the related pension liability. The mortality rate is based on publicly available mortality tables for Canada. Future salary increases and pension increases are based on the Company's expected annual increase rates. The significant actuarial assumptions used by the Company to determine its accrued benefit obligation are detailed in note 13.

Repayable Government Assistance

The Company reviews, at the end of each reporting period, whether there is reasonable assurance that part or all of the amounts received will not be reimbursed based on future estimated revenues. In determining the amount of repayable government assistance, assumptions and estimates are made in relation to discount rates, expected revenues and the expected timing of revenues, when relevant. Revenue projections take into account past experience and represent management's best estimate about the future. These estimates, along with the methodology used to derive the estimates, can have a material impact on the respective values and, ultimately, any repayable obligation in relation to government assistance [note 12].

Changes in Accounting Policies — New Standards Issued and Not Yet Adopted

Standards issued but not yet effective up to the date of issuance of the Company's consolidated financial statements are listed below.

i. Employee benefits IAS 19: The IASB amended IAS 19 to reflect significant changes to recognition and measurement of defined benefit pension expense and termination benefits by the elimination of the option to defer the recognition of gains and losses (the corridor approach) and expand the disclosure requirements. These amendments are effective for years beginning on or after January 1, 2013, with earlier application permitted. The Company is currently evaluating the impact of these amendments on its CFS.

ii. Financial Instruments: IFRS 9, Financial Instruments ["IFRS 9"] was issued by the International Accounting Standards Board ["IASB"] and replaces IAS 39, Financial Instruments: Recognition and Measurement ["IAS 39"]. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the

multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9: fair value through profit or loss ["FVTPL"] and amortized cost. Financial liabilities held for trading are measured at FVTPL, and all other financial liabilities are measured at amortized cost unless the fair value option is applied. The treatment of embedded derivatives under the new standard is consistent with IAS 39 and is applied to financial liabilities and non-derivative hosts not within the scope of the standard. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

iii. Consolidation: IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation — Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 10 on its consolidated financial statements.

iv. Disclosure of Interests in Other Entities: IFRS 12 establishes disclosure requirements for interests in other entities, such as, joint arrangements, associates, special purpose vehicles and off-balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 12 on its consolidated financial statements.

v. Fair Value Measurement: IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 13 on its consolidated financial statements.

vi. Presentation of Financial Statements: IAS 1 introduces amendments that require the grouping together of items within other comprehensive income (loss) ["OCI"] that may be reclassified to the statement of income. The amendments also reaffirm existing requirements that items in OCI and net income should be presented as either a single statement or two consecutive statements. The amendment to IAS 1 will be effective for the fiscal years beginning on or after January 1, 2013, with earlier application permitted. The Company does not expect any changes to the consolidated financial statement presentation from this amendment.

Enterprise Risk Management

Mitigating, Monitoring and Managing Risk

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

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

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

The Audit Committee, established by the Board of Directors, provides assistance to the Board of Directors in fulfilling its oversight responsibility relating to the integrity of the Company's financial statements and the

financial reporting process, the systems of internal accounting and financial controls, the external auditors' qualifications, terms and conditions of appointment, including remuneration, independence, performance and reports, and the legal and risk compliance programs as established by management and the Board of Directors.

The Company's risk controls have several key components:

ORGANIZATIONAL COMMITMENT TO OUR VALUES

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

POLICIES

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

REPORTING

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

WHISTLEBLOWER SYSTEM

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

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

Summary of Key Risks and Uncertainties

The primary risks that may affect the Company during this fiscal year are summarized below. If any of the risks and uncertainties occurs, the business, financial condition, prospects, or results of operations for the Company could be materially adversely affected.

- The Company expects to continue to experience losses as a result of its ongoing research. It is difficult to estimate the timing and future costs of its research and development programs and the timing of the achievement of milestone revenues.
- The Company relies on forecasts and estimates in its evaluation of the fair value of financial instruments and the recoverable amounts of assets in relation to impairment testing. The accuracy of such forecasts are inherently vulnerable to assumptions related to the timing of future events, the size of anticipated markets, the expected growth of sales, and forecasted costs of manufacturing facilities.
- There is no assurance that Animal Health will be sold. The Company has initiated a process to sell its Animal Health business, subject to, among other things, shareholder approval. There is no assurance that the Company will receive an offer acceptable to the Board or, if it does, that the offer will be approved by shareholders. If the Animal Health business is not sold, the Company will need to make alternate arrangements to refinance the Paladin Loan, which may not be able to be done on favourable terms.
- If the Company cannot raise additional capital on acceptable terms, it may delay or be unable to pursue further development of its product

portfolio, obtain regulatory approvals or commercialize its product candidates.

- The Paladin Loan contains a provision that was inherited by Paladin when it acquired the Paladin Loan from Capital Royalty whereby, if a majority of the members of the Board is comprised of persons other than persons nominated or appointed by the Company, the Paladin Loan will be in default and will fall due. Such a default would trigger a cross-default under other debt, resulting in approximately $57.3 million of debt falling immediately due.
- The Company is indirectly subject to price regulation in certain countries and this could affect its gross margin.
- The Company does not currently have backup manufacturing capacity for some of its key products.
- The loss of a key supplier of certain raw materials could have a material adverse effect on the Company's business and financial condition.
- The Company may not achieve its projected development goals in the timeframes it announces and expects.
- Rapid technological change could make the Company's products obsolete.
- The Company faces uncertainties related to regulatory approval which could result in delays in product commercialization in certain territories.
- Even if the Company obtains marketing approval, its products will be subject to ongoing regulatory review.
- The Company's products, if approved, may fail to achieve market acceptance.
- Development of therapeutics can be costly and require years of research and development.
- If the Company is unable to protect its intellectual property rights, its competitors may develop and market products with similar features that may reduce demand for its products and the effective commercialization of its products may be inhibited.
- The Company may become involved in lawsuits with respect to collaborations or protection or enforcement of its patents that would be expensive and time-consuming.
- If third-party manufacturers of the Company's products fail to devote sufficient time and resources to its concerns, or if their performance is substandard, clinical trials and product introductions may be delayed and costs may rise.
- The Company may not be able to manufacture its products in commercial quantities, which would prevent it from marketing its products.
- The Company may not be able to successfully achieve its goals.
- The Company has international operations that expose it to additional business risks.
- The Company may incur losses associated with foreign currency fluctuations.
- The Company is subject to the risk of product liability claims, for which it may not have, nor be able to obtain, adequate insurance coverage.
- Some of the Company's products may use hazardous materials and, as a result, it is exposed to potential liability claims and to costs associated with complying with laws regulating hazardous waste.
- Future sales of Common Shares by the Company or its existing lenders or shareholders may cause its Share price to fall.
- The Company has never paid dividends on its Common Shares and, although it has committed to return capital to shareholders by way of dividend or Share repurchase following the sale of Animal Health and One Health based on combined net proceeds greater than $75M, there is no guarantee that this will be able to be achieved.

Financial Risks and Financial Instruments

Certain of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities.

The Company has determined that the carrying amount of its short-term financial assets and liabilities, including cash and cash equivalents, trade and other receivables, trade payable and other liabilities, demand loans and current portion of debts, approximates their fair value because of the relatively short periods to maturity of these instruments.

The carrying values of the long-term debts approximate their fair value because the interest rates approximate market rates available for similar instruments. Management believes that no significant change occurred in the risk of these instruments. Refer to note 16 — Financial instruments for a more complete discussion on financial instruments and financial risks including currency risk, credit risk, liquidity risk, and interest rate risk.

Other Information

Related Party Transactions

The Company paid one Director $44 (2012 – two Directors $41) in consulting fees and purchased inventory items from a company owned by a Director in the amount of $52 (2012 – $38). The Company received payment for services provided to a company owned by a Director of $4 (2012 – two companies $106). Some of these costs have been included in discontinued operations.

During the year ended June 30, 2013, no advances were given to key management personnel (2012 – $55). Loans bear interest at 2% and are repayable over five years. At June 30, 2013, the balance of all loans to key management was $149 (2012 – $258).

The compensation earned by key management personnel related to continuing operations, determined as being all members of the executive team and Directors, in aggregate, was as follows:

For the years ended June 30,	**2013 $**	2012 $
Wages and salaries	**2,632**	2,650
Benefits	**257**	210
Stock-based compensation	**261**	269
Shares issued to Directors	**54**	—
Defined benefit plan	**191**	67
Employer payment of defined contribution plans	**194**	189
Termination benefits	**155**	289
	3,744	3,674

The compensation earned by employed dependants of key management personnel was as follows:

For the years ended June 30,	**2013 $**	2012 $
Wages and salaries	**61**	63
Benefits	**12**	12
Employer payment of defined contribution plans	**6**	6
	79	81

Some of the Company's key management personnel (excluding Directors) have entered into agreements, whereby, in the event of a change of control, they would receive two years base salary compensation assuming termination of employment as a result of a change of control.

Off-Balance Sheet Arrangements

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

Outstanding Common Shares

The Company has total Common Shares outstanding at September 26, 2013 of 140,113,142. In addition, the Company has 22,270,912 outstanding Warrants and 6,501,009 outstanding Options, exchangeable for one Common Share upon exercise.

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, and on www.asx.com.au.

Effectiveness of Disclosure Controls

Disclosure Controls and Procedures

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

Internal Controls Over Financial Reporting

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

The President and Chief Executive Officer and the Chief Financial Officer, together with management, completed the documentation and preliminary evaluation of the effectiveness of the Company's disclosure controls and procedures ["DCP"] and internal controls over financial reporting ["ICFR"] at June 30, 2013. This evaluation included documentation activities, management inquiries, and other reviews as deemed appropriate by management in consideration of the size and nature of the Company's business.

Over the course of the fourth quarter of Fiscal 2013, the key controls identified in the documentation were tested and evaluated. As a result of the testing, the Company has discovered a number of areas where improvement and updates should be introduced and implemented, including the documentation of controls. None of the observations or results indicated a material weakness in either DCP or ICFR for the year ended June 30, 2013.

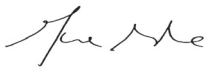
During this challenging year, due to the circumstances faced by the Company as a result of its financial condition, the timing (near the end of the fiscal year) of the debt refinancing, the public offering, and the divestment process relating to the sale of the Animal Health business (which resulted in recording this business segment as an asset held for sale), the Company faced significant time constraints. Therefore, it was difficult to document, on a timely basis, the appropriate second-level review of the Company's accounting positions regarding these unusual, complex, and material transactions to ensure that such transactions are correctly recorded in the financial statements.

Following the identification of this deficiency, the Company retained the services of accounting consultants in order to assist management and the accounting department in preparing, documenting and reviewing the accounting positions for the Company's complex transactions. The appropriate adjustments were made, and management believes that the consolidated financial statements and notes included in this report present fairly the financial results of the Company for the year ended June 30, 2013. The Company plans to continue to review and make the necessary changes to its ICFR policies and procedures to remediate this deficiency, including the hiring of additional resources in the accounting and finance department. These new resources, combined with changes in the Company's financial condition, should result in improvements in its review and approval process, particularly the financial statement close process.

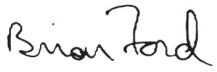
The accompanying financial statements for **Bioniche Life Sciences Inc.** are management's responsibility and have been approved by the Bioniche Life Sciences Inc. Board of Directors. These financial statements were prepared in accordance with International Financial Reporting Standards (IFRS). They include some amounts that are based on estimates and judgments. The financial information contained elsewhere in the annual report is consistent with that which is contained in the financial statements.

To ensure the accuracy and the objectivity of the information contained in the financial statements, the management of Bioniche Life Sciences Inc. maintains a system of internal accounting controls. Management believes that this system gives a reasonable degree of assurance that the financial documents are reliable and provide an adequate basis for the financial statements, and that the Company's assets are properly accounted for and safeguarded.

The Board of Directors upholds its responsibility for the financial statements in this annual report primarily through its Audit Committee. The Audit Committee is made up of independent Directors who review the Company's annual consolidated financial statements, as well as Management's Discussion and Analysis of operating results and financial position, and recommend their approval to the Board of Directors. Ernst & Young LLP, the external auditors designated by the shareholders, periodically meet with the Audit Committee to discuss auditing, the reporting of financial information and other related subjects. National Instrument 52-108 requires that the Company engage an auditor subject to the Canadian Public Accountability Board. Its rules provide for standards to ensure auditor independence and regular rotation.



Graeme McRae
President & Chief Executive Officer



Brian D. Ford, CA
Chief Financial Officer

Belleville, Canada
September 27, 2013

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Bioniche Life Sciences Inc.

We have audited the accompanying consolidated financial statements of **Bioniche Life Sciences Inc.**, which comprise the consolidated statements of financial position as at June 30, 2013 and 2012, and the consolidated statements of changes in shareholders' (deficiency) equity, loss and comprehensive loss, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Bioniche Life Sciences Inc.** as at June 30, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements which indicates that the Company had an accumulated deficit of $149,250,000 and a shareholders' deficiency of $12,542,000 as at June 30, 2013. These conditions, along with other matters set forth in note 1, indicate the existence of a material uncertainty that may cast doubt on the Company's ability to continue as a going concern.

Ernst & Young LLP[1]

Montréal, Canada
September 27, 2013

[1] CPA auditor, CA, public accountancy permit no. A113209

Bioniche Life Sciences Inc.
Amalgamated under the laws of Ontario

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

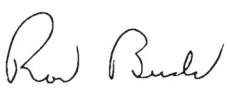
[see note 1 — Going concern uncertainty]

As at June 30, *(thousands of Canadian dollars)*	Notes	2013 $	2012 $
ASSETS			
Current			
Cash and cash equivalents	6	**4,241**	20,020
Trade and other receivables	7	**1,837**	6,787
Inventories		**—**	7,776
Prepayments		**369**	1,081
		6,447	35,664
Non-current			
Property, plant and equipment	8,11	**31,213**	40,134
Intangible assets	9	**3,637**	5,206
Goodwill	10	**—**	456
Other non-current receivables	7	**103**	183
Deferred tax assets	18	**—**	509
		41,400	82,152
Assets classified as held for sale	5	**20,103**	—
Total assets		**61,503**	82,152
LIABILITIES AND SHAREHOLDERS' (DEFICIENCY) EQUITY			
Current			
Trade and other payables		**5,299**	6,713
Income taxes payable		**—**	94
Current portion employee benefit liability	13	**199**	—
Current portion of long-term debt	11	**34,874**	997
Current portion of repayable government assistance	12	**15,033**	366
		55,405	8,170
Non-current			
Long-term debt	11	**476**	25,438
Repayable government assistance	12	**12,325**	30,921
Employee benefit liability	13	**1,867**	1,875
		70,073	66,404
Liabilities related to assets classified as held for sale	5	**3,972**	—
Total liabilities		**74,045**	66,404
Shareholders' (deficiency) equity			
Share capital	14	**126,973**	126,354
Other paid-in capital		**10,110**	9,327
Deficit		**(149,250)**	(118,807)
Foreign currency translation reserve		**(375)**	(1,126)
Total shareholders' (deficiency) equity		**(12,542)**	15,748
Total liabilities and shareholders' (deficiency) equity		**61,503**	82,152

Commitments and contingencies *[note 19]*
Subsequent events *[note 24]*

See accompanying notes

On behalf of the Board:



Director

Director

Bioniche Life Sciences Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' (DEFICIENCY) EQUITY

[see note 1 — Going concern uncertainty]

(thousands of Canadian dollars)	Common shares $	Preferred shares Series I $	Total Share Capital $	Other paid-in Capital $	Deficit $	Foreign currency translation reserve $	Total $
Balance, June 30, 2011	**125,469**	**161**	**125,630**	**8,771**	**(94,619)**	**(1,174)**	**38,608**
Net loss for the year	—	—	—	—	(24,188)	—	(24,188)
Exchange difference on translation of foreign operations	—	—	—	—	—	48	48
Issued under employee share ownership plan	876	—	876	—	—	—	876
Fair value of stock options	—	—	—	553	—	—	553
Share redemption	—	(161)	(161)	5	—	—	(156)
Options issued to a consultant	—	—	—	1	—	—	1
Options exercised	9	—	9	(3)	—	—	6
Balance, June 30, 2012	**126,354**	**—**	**126,354**	**9,327**	**(118,807)**	**(1,126)**	**15,748**
Net loss for the year	—	—	—	—	(30,443)	—	**(30,443)**
Exchange difference on translation of foreign operations	—	—	—	—	—	751	**751**
Issued under employee share ownership plan	563	—	563	—	—	—	**563**
Shares issued to Directors	54		54	—	—	—	**54**
Fair value of stock options	—	—	—	481	—	—	**481**
Warrants issued	—	—	—	303	—	—	**303**
Options exercised	2	—	2	(1)	—	—	**1**
Balance, June 30, 2013	**126,973**	**—**	**126,973**	**10,110**	**(149,250)**	**(375)**	**(12,542)**

See accompanying notes

Bioniche Life Sciences Inc.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

[see note 1 — Going concern uncertainty]

For the years ended June 30 *(thousands of Canadian dollars, except share and per share amounts)*	Notes	**2013** **$**	2012 $
CONTINUING OPERATIONS			
REVENUES			
Research collaborations		**82**	1,986
		82	1,986
EXPENSES			
Administration		**6,267**	7,191
Marketing and selling		**933**	1,188
Financial expenses	21	**8,491**	3,110
Foreign exchange loss (gain)		**1,923**	(413)
		17,614	11,076
Loss before research and development expenses and income taxes		**(17,532)**	(9,090)
Research and development expenses		**16,767**	14,493
Less: government assistance	12	**(508)**	(289)
Loss before income taxes		**(33,791)**	(23,294)
Income tax expense	18	**—**	—
Net loss for the year		**(33,791)**	(23,294)
DISCONTINUED OPERATIONS			
Profit (loss) for the year from discontinued operations	5	**3,348**	(894)
Total loss for the year		**(30,443)**	(24,188)
OTHER COMPREHENSIVE INCOME — DISCONTINUED OPERATIONS			
Exchange difference on translation of foreign operations		**751**	48
Total comprehensive loss for the year		**(29,692)**	(24,140)
Basic and fully diluted net income (loss) per Share			
From continuing operations		**(0.32)**	(0.23)
From discontinued operations		**0.03**	(0.01)
Basic and fully diluted net loss per Share		**(0.29)**	(0.24)
Weighted-average number of Common Shares outstanding		**104,354,920**	102,818,009

See accompanying notes

Bioniche Life Sciences Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

[see note 1 — Going concern uncertainty]

For the years ended June 30 *(thousands of Canadian dollars)*	Notes	**2013** **$**	2012 $
OPERATING ACTIVITIES			
Net loss for the year from continuing operations		**(33,791)**	(23,294)
Income (loss) from discontinued operations		**3,348**	(894)
Net loss for the year		**(30,443)**	(24,188)
Items not affecting cash and other reconciling items relating to continuing operations:			
Depreciation of property, plant and equipment	22	**1,301**	1,511
Impairment of property, plant and equipment	8	**3,710**	—
Amortization of intangible assets	22	**1,223**	1,092
Unrealized foreign exchange loss		**1,377**	248
Financial expenses on government incentives, long-term debt and repayable government assistance		**5,699**	2,354
Stock-based compensation expense		**481**	553
Shares issued to Directors		**54**	—
Employee share ownership plan		**570**	875
Employee future benefit		**191**	67
Impairment of intangible assets		**—**	268
Deemed government assistance		**—**	(7)
Deferred income taxes		**170**	39
Other		**—**	1
		(15,667)	(17,187)
Net change in non-cash working capital balances	20	**2,327**	2,530
Cash (used in) operating activities		**(13,340)**	(14,657)
INVESTING ACTIVITIES			
Proceeds (purchase) of other current financial assets		**—**	1,493
Proceeds from settlement of long-term receivable		**143**	—
Proceeds on disposal of property, plant and equipment		**5**	15
Purchases of intangible assets		**(511)**	(260)
Purchases of property, plant and equipment		**(453)**	(4,286)
Cash used in investing activities		**(816)**	(3,038)
FINANCING ACTIVITIES			
Proceeds from repayable government assistance		**—**	1,230
Proceeds from long-term debt		**—**	22,728
Payment of financing fees		**—**	(545)
Proceeds from Shares issued		**1**	6
Repayment of repayable government assistance		**(378)**	(91)
Redemption of Shares		**—**	(156)
Repayment of finance lease obligations		**435)**	(439)
Repayment of long-term debt		**(587)**	(371)
Cash (used in) provided by financing activities		**(1,399)**	22,362
Net (decrease) increase in cash and cash equivalents during the year		**(15,555)**	4,667
Net effect of foreign exchange on cash		**121**	—
Cash and cash equivalents, beginning of year		**20,020**	15,353
Cash and cash equivalents, end of year		**4,586**	20,020

See accompanying notes

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

1. Nature of the Business

NATURE OF THE BUSINESS

Bioniche Life Sciences Inc. [the "Company"] is a Canadian biopharmaceutical company, amalgamated under the laws of Canada, engaged in the research, development, manufacturing and commercialization of human and animal health products and technologies worldwide. The Company's common stock is traded on the Toronto Stock Exchange ["TSX": "BNC"] and the Australian Stock Exchange ["ASX":"BNC"].

Headquartered in Belleville, Ontario, the Company has offices and manufacturing facilities in Canada, the United States, Europe and Australia.

The Company has three business units: **Human Health**, **Animal Health** and **One Health**.

- The **Human Health business unit** is responsible for research, discovery and clinical development of human health products. Its revenues are generated from sales of proprietary products, royalties and licensing arrangements.
- The **Animal Health business unit** is responsible for the research, development, manufacturing and marketing of animal health products worldwide. Established in 1979, Bioniche Animal Health develops technologies to replace antibiotics in livestock, among other activities. The Animal Health division has operations in Canada, the United States, Europe and Australia. As disclosed in note 5, the Company formally commenced the process to divest this business unit.
- The **One Health business unit** is responsible for research, development, manufacturing and marketing of biopharmaceutical animal health products to help prevent disease in humans and improve the safety of food and water supplies worldwide. The current leading initiative for the division is the development and commercialization of a cattle vaccination to help reduce the spread of the *E.coli* O157:H7 bacterium.

GOING CONCERN UNCERTAINTY

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ["IFRS"] on a going concern basis, which presumes the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the ordinary course of business for the foreseeable future. The use of these principles may not be appropriate because, as at June 30, 2013, there was substantial doubt as to the Company's ability to continue as a going concern without having access to additional financial resources.

At June 30, 2013, the Company has incurred significant losses, had an accumulated deficit of $152,494 and had a shareholders' deficiency of $15,786. The Company is considering a number of financing alternatives and subsequent to June 30, 2013, as disclosed in note 24, has issued 33,808,621 Units comprising one Common Share and one-half Share Purchase Warrant with net proceeds amounting to approximately $8,868. The Company has also received additional proceeds from its loan agreement with Paladin Labs subsequent to June 30, 2013 [note 11] in the amount of $5,200 [US$5,000] less expenses. In addition, the Company has engaged an independent advisory firm that specializes in merger and acquisition transactions, divestitures and restructurings to dispose of its Animal Health business. The Company may also consider additional debt and/or equity financing, licensing arrangements, and the monetization of assets through the sale or strategic partnering of technologies under development including the sale or partnering of its Vaccine Manufacturing Centre (VMC). The Company's committed cash obligations and expected level of expenses for the next twelve months exceed its committed sources of funds at June 30, 2013, even after taking into consideration the additional debt and equity financing received subsequent to year-end.

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

1. Nature of the Business [cont'd]

If the Company is unable to accomplish these initiatives or accomplish the initiatives at the values acceptable to the Company, both of which are outside of management's control, the Company will be required to curtail its development activities and dispose of its remaining assets and businesses.

These consolidated financial statements do not give effect to any adjustments to the amounts and classifications of assets and liabilities which might be necessary should the Company not be successful in its initiatives. Such adjustments could be material.

2. Summary of Significant Accounting Policies

BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ["IFRS"] as issued by the International Accounting Standards Board ["IASB"].

The consolidated financial statements have been prepared on a historical cost basis.

These consolidated financial statements were authorized for issue by the Board of Directors on September 27, 2013.

The significant accounting policies applied by the Company are summarized below.

BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at June 30, 2013. The consolidated financial statements reflect the consolidated financial position and results of operations of the Company and its active subsidiaries as follows:

Subsidiary	Jurisdiction of incorporation	% Ownership
Bioniche Animal Health Canada Inc.	Ontario	100%
Bioniche Animal Health USA, Inc.	United States	100%
Bioniche Urology Inc.	United States	100%
Bioniche Animal Health (Europe) Ltd.	Ireland	100%
Bioniche Animal Health (A/Asia) Pty. Ltd.	Australia	100%
Bioniche (A/Asia) Pty. Ltd.	Australia	100%

Subsidiaries are entities over which the Company has control, where control is defined as the power to govern financial and operating policies to obtain benefits from activities. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

2. Summary of Significant Accounting Policies [cont'd]

REVENUE RECOGNITION

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

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

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

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

Interest income is accrued as it is earned.

ASSETS CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In the statement of loss and comprehensive loss, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit (loss) after taxes, even when the Company retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the statement of loss and comprehensive loss.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and highly liquid short-term investments with maturities of less than three months from the date of acquisition that are readily convertible to known amounts of cash at any time and that are subject to an

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

2. Summary of Significant Accounting Policies [cont'd]

insignificant risk of change in value. Due to the liquid nature of these financial assets, the Company has elected to classify them as held for trading and changes in fair value are recorded in the consolidated statement of loss.

TRADE RECEIVABLES

Trade receivables are carried at original invoice amount less any provisions for credits and doubtful accounts. Provisions for doubtful accounts are made where there is evidence of a risk of non-payment, taking into account aging, previous experience and general economic conditions. When a trade receivable is determined to be uncollectable, it is written off, firstly against any provision previously made for it, and then to the consolidated statement of loss. Subsequent recoveries of amounts previously provided for are credited to the consolidated statement of loss. Long-term receivables are discounted to current values using appropriate rates of interest.

INVENTORIES

Inventories are valued at the lower of cost and net realizable value, with cost being determined on a weighted-average basis. Cost is comprised of direct materials, direct labour, and an overhead allocation. Net realizable value is the estimated selling price of the inventory in the ordinary course of business, less any estimates costs of completion and any necessary selling costs.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost, net of government assistance, accumulated depreciation, and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. Assets acquired under finance leases are carried at cost, being the present value of the minimum lease payments after the deduction of any executory costs.

When significant parts of property, plant and equipment are required to be replaced at intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciation, respectively.

Amortization of property, plant and equipment is calculated using the following methods and rates:

Assets	
Buildings	Straight-line basis between 7 and 40 years
Building under finance lease	Straight-line basis based on the lease term
Equipment	20% declining balance
Equipment under finance lease	20% declining balance
Computer equipment	Straight-line basis over 5 years
Automobiles	Straight-line basis over 5 years
Automobiles under finance lease	Straight-line basis over 5 years
Leasehold improvements	Straight-line basis based on the lease term

Construction-in-progress comprises construction and engineering costs. No amortization is recorded until construction is substantially complete and the assets are ready for productive use.

An item of property, plant and equipment and any significant component part initially recognized is de-recognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

2. Summary of Significant Accounting Policies [cont'd]

of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statements of loss when the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end and adjusted prospectively, if appropriate.

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective asset. All other borrowing costs are recognized in the consolidated statements of loss and comprehensive loss in the period during which they occur. Borrowing costs consist of interest that the Company incurs in connection with the borrowing of funds.

INTANGIBLE ASSETS

Intangible assets represent technology costs, patents and trademarks, non-compete agreements and the costs to acquire licenses. Intangible assets also include software that is not an integral part of the related hardware or equipment.

They are carried at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful life of the asset as noted below. The intangible assets are assessed for impairment at each reporting date when there are indicators of impairment present.

Technology	over twenty years
Patents and trademarks	over the remaining life of the patent
License agreements	over a period of not more than five years
Non-compete agreement	over ten years
Software	over five years

Amortization methods, residual values, and useful lives are reviewed at each financial year-end and adjusted prospectively, if appropriate. If a license agreement is terminated, the unamortized costs relating to the agreement are charged to income. All costs related to the development of internally-generated patents and trademarks are expensed as incurred.

Research costs are charged to income as incurred net of government assistance. Development costs are charged against income in the period of the expenditure unless a development project meets the criteria for capitalization and amortization. The Company has not deferred any such development costs to date.

IMPAIRMENT OF NON-FINANCIAL ASSETS

The Company assesses at each reporting date whether there is an indication that non-financial assets may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's ["CGU"] fair value less costs to sell and its value in use, and is determined for an individual asset, unless the asset does not generate cash in-flows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use,

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2. Summary of Significant Accounting Policies [cont'd]

the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

In certain circumstances, it is impossible to determine the cash flows generated by one asset. In those circumstances, the impairment testing is done for a CGU, which is the smallest identifiable group of assets that generates cash in-flows largely independent from other assets or groups of assets. The impairment testing is done in the same way as for an individual asset and any impairment loss is allocated first to goodwill, and then to underlying assets on a pro-rata basis.

Non-financial assets are tested for impairment in an interim period when there are indicators of impairment in an interim period. Impairment is recorded through income in the period in which it arises.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statements of loss.

GOODWILL

Goodwill represents the excess of the cost of an acquisition, including the Company's best estimate of the fair value of contingent consideration, over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Separately recognized goodwill is tested annually, as at June 30, for impairment and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained. Goodwill is allocated to CGUs or groups of CGUs for the purpose of impairment testing based on the level at which management monitors it, which is not higher than an operating segment before aggregation. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose.

GOVERNMENT ASSISTANCE

Amounts received or receivable resulting from government assistance programs, including grants and investment tax credits for research and development, are recognized where there is reasonable assurance that the amount of government assistance will be received and all attached conditions will be complied with. When the amount relates to an expense item, it is recognized as income on a systematic basis as a reduction to the costs that it is intended to compensate. When the amount relates to an asset, it reduces the carrying amount of the asset and is then recognized as income over the useful life of the depreciable asset by way of a reduced depreciation charge.

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

2. Summary of Significant Accounting Policies [cont'd]

REPAYABLE GOVERNMENT ASSISTANCE

Repayable government assistance arrangements are recognized as a non-current liability. The obligation to repay royalties and other amounts under these agreements are recorded when the contribution is receivable and is estimated based on future projections. The initial measurement of the obligation to repay the government assistance is discounted using the prevailing market rates of interest at the time, for a similar instrument (similar as to currency, term, type of interest, guarantees or other factors) with a similar credit rating. The difference between government contributions and the discounted value of repayable government assistance is recognized as a reduction of expenses or as a reduction of capitalized expenditures. Subsequent re-measurement of these obligations is recognized in financial expenses (income).

EMPLOYEE BENEFITS

Contributions to defined contribution benefit plans are recognized as an expense when employees have rendered services entitling them to contributions.

The accrued pension liability recognized in the consolidated balance sheet represents the present value of the benefit obligation. The cost of this defined benefit plan has been determined by an independent actuary using the projected unit credit method, incorporating management's best estimate of future salary escalation, retirement age, inflation, and other actuarial factors. The underlying assumption for the discount rate is based on market rates. Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation, and are recognized in the consolidated statement of loss immediately. Past service costs are recognized immediately to the extent that the benefits are already vested and otherwise are amortized on a straight-line basis over the average period until the benefits become vested.

INCOME TAXES

The Company follows the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred tax assets are recognized only to the extent that it is more likely than not that deferred tax assets will be realized. A valuation allowance is provided to the extent that tax assets are not expected to be realized.

STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS

The Company has a stock-based compensation plan and applies the fair value method. The fair value of stock Options granted is determined at the appropriate measurement date using the Black-Scholes Option pricing model, and generally expensed over the vesting period of the Options. Awards with graded vesting are considered multiple awards for fair value measurement and stock-based compensation calculations. In determining the expense, the Company deducts the number of awards that are expected to be forfeited at the time of grant and revises this estimate, if necessary, in subsequent years if actual forfeitures differ from those estimates.

For equity-settled transactions where vesting is conditional upon a market or non-vesting condition, these are treated as vesting, irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

2. Summary of Significant Accounting Policies [cont'd]

FOREIGN CURRENCY TRANSLATION

The Company's consolidated financial statements are presented in Canadian dollars, which is the parent company's functional currency. Each entity in the Company determines its own functional currency, and items included in the financial statements of each entity are measured using that functional currency.

(i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Company's entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the functional currency spot rate of exchange ruling at the reporting date. All differences are recorded in the consolidated statements of loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

(ii) Foreign operations

The assets and liabilities of foreign operations with a functional currency other than the Canadian dollar are translated to Canadian dollars at the rate of exchange prevailing at the reporting date. The income and expenses of foreign operations are translated to Canadian dollar at the exchange rate prevailing at the date of the transaction. The exchange differences arising on the translation are recognized in "Other comprehensive income (loss)" and "Foreign currency translation reserve". On disposal of a foreign operation, the component of other comprehensive income (loss) relating to that particular foreign operation is recognized in the consolidated statements of loss.

FINANCIAL ASSETS

All financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Company determines the classification of its financial assets at initial recognition.

Purchases or sales of financial assets that require delivery of assets within a timeframe established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset. The Company's financial assets include cash and cash equivalents, other current financial assets, trade and other receivables, and other non-current receivables.

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or re-purchasing in the near-term. Financial assets at fair value through profit and loss are carried in the balance sheet at fair value with changes in fair value recognized in financial expenses (income) in the consolidated statement of loss.

The Company has designated its other current financial assets upon initial recognition as at fair value through profit or loss.

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

2. Summary of Significant Accounting Policies [cont'd]

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Any loss arising from impairment is recognized in the consolidated statements of loss in financial expenses (income).

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired, that is, if one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset(s). Impairments are measured as the excess of the carrying amount over the fair value and are recognized in the consolidated statements of loss.

FINANCIAL LIABILITIES

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs. Financial liabilities are classified as financial liabilities at fair value through profit or loss, or other financial liabilities, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. The Company's financial liabilities include trade and other payables, long-term debt, and repayable government assistance. The measurement of financial liabilities depends on their classification as follows:

Other financial liabilities

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in financial expenses (income) in the consolidated statements of loss when the liabilities are de-recognized, as well as through the effective interest method.

DE-RECOGNITION

A financial asset or liability is de-recognized when the rights or obligations to receive or disburse cash flows from the asset or liability have expired and the Company has transferred its rights or obligations to receive or dispose of the cash flows from the asset or liability.

EMBEDDED DERIVATIVES

Embedded derivatives are separated into current or non-current portions based on an assessment of circumstances (i.e., the underlying contracted cash flows). Embedded derivatives are carried at fair value with changes in the fair value being charged or credited to the consolidated statements of loss under "Financial expenses (income)".

FINANCIAL INSTRUMENT CLASSIFICATION

The Company has classified its financial instruments as follows:

Held for trading

- Cash and cash equivalents
- Other current financial assets

Loans and receivables

- Trade and other receivables
- Other non-current receivables

Other financial liabilities

- Trade and other payables
- Long-term debt
- Repayable government assistance

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

2. Summary of Significant Accounting Policies [cont'd]

LEASES

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Finance leases which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in financial expenses in the consolidated statements of loss. A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an operating expense in the consolidated statements of loss on a straight-line basis over the lease term.

PROVISIONS

The Company recognizes provisions when it has a present obligation (legal or constructive) as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements requires management to make judgments and estimates that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the 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 consolidated financial statements and such differences may be material.

JUDGMENTS

In the process of applying the Company's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements.

Revenue

The Company assesses the criteria for recognition of revenue related to up-front payments and multiple components as outlined by IAS 18, Revenue. Judgment is necessary to determine over which period the Company will satisfy its obligations related to up-front payments and when components can be recognized separately and the allocation of the related consideration to each component.

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3. Significant Accounting Judgments, Estimates and Assumptions [cont'd]

Assets held for sale and discontinued operations

During the fourth quarter of 2013, the Board of Directors issued a news release announcing the decision to sell the Animal Health reporting segment of the Company and, therefore, classified it as held for sale and its operations as discontinued operations. The Board considered the segment to meet the criteria to be classified as held for sale at June 30, 2013 based on the following conditions:

- Animal Health is available for immediate sale and can be sold to a potential buyer in its current condition.
- Management has issued a request to proposal to potential buyers. There are a number of potential buyers who have been identified and several offers have already been tendered to the Company.
- The Company expects a sale to be completed within the next 12 months.

ESTIMATES

The assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Non-financial assets impairment

The Company uses a "value in use" approach to determine recoverable amounts in relation to goodwill, intangible assets, and property, plant and equipment for each Cash Generating Unit ["CGU"] based on discounted cash flow models. The calculation of discounted cash flows for each CGU are sensitive to several underlying assumptions and risk factors, as follows:

1. **Products emerging from development, regulatory timelines and approvals for products to be launched** — Management considers the stage of development and expected time to complete regulatory approval in the preparation of long-term forecasts. No revenue is forecast for products in early-stage development. For products that have demonstrated successful results in completed studies, trials, and other testing as may be applicable under the circumstances, and for those that are already under review by applicable regulatory bodies if necessary, forecasts are developed based on the best estimate of the timing of completing any residual development activities and obtaining regulatory approvals. If, at any time, it becomes apparent that regulatory approval will require additional time or resources to complete commercialization, or if the product is unlikely to achieve approval, the related product forecast is amended. Final regulatory approval is not under the control of the Company and, consequently, forecasts and discounted cash flows are vulnerable to timelines required to achieve product approval.

2. **Growth rates** — Sales growth is estimated based on a variety of factors, including past growth experienced in existing markets, pricing considerations, estimates of target market populations based on health statistics and label claims, customer industry conditions, market exclusivity from patent protection, obtaining regulatory approval in foreign markets for existing products to support geographic expansion, and the overall economic value of the product to the user in contrast to alternate products and approaches to animal and human health based therapies, as in the market today or those known to be under development. Consequently, the value of the technology underlying the products is subject to variation arising from new products, emerging research, and customer industry markets, and these factors are integrated into the discounted cash flow models based on management's current analysis of such factors.

3. **Foreign exchange** — Over the past few years, foreign exchange rates against the Canadian dollar have varied considerably, the U.S. dollar in particular. The Company applies rates in effect as at the date the forecast is prepared, such that

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3. Significant Accounting Judgments, Estimates and Assumptions [cont'd]

forecasts use the most current information available. Foreign currency variation in the forecast period is outside the control of the Company.

4. **Discount rates and risk factors** — Discount rates represent the current market assessment of the risks and capital costs for each CGU, taking into account the time value of money, market expectations of return on capital from debt, equity or other financial instruments. The discount rates are derived from an estimate of the Company's weighted average cost of capital ["WACC"], and takes into account the costs of debt and equity specific to the Company, peer companies in our industry, and general macroeconomic factors, such as, beta factors and risk-free interest rates. For CGUs that require additional product or manufacturing development, namely, the VMC and MCC (Urocidin™), the Company determined that a pre-tax discount rate of 18.5% for the VMC and 25% for MCC (Urocidin™) was reasonable to account for the additional risks related to their ultimate commercialization.

5. **Forecasts** — Cash flows are derived from forecasts prepared by management for a five-year period. For new products emerging from development, as described above, revenue forecasts are based on market analysis, estimates from distribution partners, competitive profiles of the market, pricing studies, Accordingly, the discounted cash flows are sensitive to market analyses and estimates of future developments and circumstances that are not under the direct control of management.

Consequently, as a result of these assumptions and risks, when non-financial assets including goodwill, property, plant and equipment and other intangible assets are tested for impairment, the determination of the assets' recoverable amount involves the use of significant estimates by management and can have a material impact on the respective values and, ultimately, the amount of any impairment.

The VMC does not currently generate cash in-flows as the facility continues through its validation stages. Future cash flows are estimated using five-year forecasts with a terminal growth rate of 1%. The value in use considers the weighted average probabilities of several forecasted options, including various levels of contract manufacturing revenue and costs as well as the timing of potential government support for vaccination programs in Canada and/or other countries, beginning in 2015 and scaling up over the following three years. Econiche® has been granted a full license in Canada and has also received approval for importation into Australia. The costs of remaining validation and development required to complete the validation of the VMC have been included in the discounted cash flow models and analysis. At the end of Fiscal 2013, the VMC is still undergoing validation to assure international quality standards will be met and, as such, it is not yet ready for its intended use and is not being depreciated.

Stock-based compensation

The fair value of share-based payment transactions is estimated using a valuation model which, in turn, depends on the terms and conditions of the grant. The use of a valuation model requires the use of appropriate inputs including, but not limited to, the expected life of the Share Option and, the expected volatility of the Company's Common Shares over the period. The assumptions and model used for estimating fair value for share-based payment transactions are disclosed in note 14[d].

Income taxes

Estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income before they expire. The

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

3. Significant Accounting Judgments, Estimates and Assumptions [cont'd]

Company's assessment is based upon existing tax laws and estimates of future taxable income. If the assessment of the Company's ability to utilize the underlying future tax deductions changes, the Company would be required to recognize more or fewer of the tax deductions as assets, which would decrease or increase the income tax expense in the period in which this is determined. Please refer to note 18 for additional details.

Employee future benefit

The cost of the defined benefit pension plan, as well as the present value of the pension obligation, is determined using actuarial valuations. The actuarial valuations involve making assumptions about discount rates, future salary increases, mortality rates, and future pension increases. All assumptions are reviewed at each reporting date. Any changes in these assumptions will impact the carrying amount of the pension obligation. In determining the appropriate discount rate, management considers the interest rates of corporate bonds denominated in Canadian dollars with an AA/AAA rating, and which best match the terms of the related pension liability. The mortality rate is based on publicly available mortality tables for Canada. Future salary increases and pension increases are based on the Company's expected annual increase rates. The significant actuarial assumptions used by the Company to determine its accrued benefit obligation are detailed in note 13.

Repayable government assistance

The Company reviews, at the end of each reporting period, whether there is reasonable assurance that part or all of the amounts received will not be reimbursed based on future estimated revenues. In determining the amount of repayable government assistance, assumptions and estimates are made in relation to discount rates, expected revenues and the expected timing of revenues, when relevant. Revenue projections take into account past experience and represent management's best estimate about the future. These estimates, along with the methodology used to derive the estimates, can have a material impact on the respective values and, ultimately, any repayable obligation in relation to government assistance [note 12].

4. Changes in Accounting Policies

Standards issued but not yet effective up to the date of issuance of the Company's consolidated financial statements are listed below.

(i) Employee benefits IAS 19: The IASB amended IAS 19 to reflect significant changes to recognition and measurement of defined benefit pension expense and termination benefits by the elimination of the option to defer the recognition of gains and losses (the corridor approach) and expand the disclosure requirements. These amendments are effective for years beginning on or after January 1, 2013, with earlier application permitted. The Company is currently evaluating the impact of these amendments on its consolidated financial statements.

(ii) Financial Instruments: IFRS 9, Financial Instruments ("IFRS 9") was issued by the International Accounting Standards Board ("IASB") and replaces IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9: fair value through profit or loss ("FVTPL") and amortized cost. Financial liabilities held for trading are measured at FVTPL, and all other financial liabilities are measured at

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4. Changes in Accounting Policies [cont'd]

amortized cost unless the fair value option is applied. The treatment of embedded derivatives under the new standard is consistent with IAS 39 and is applied to financial liabilities and non-derivative hosts not within the scope of the standard. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

(iii) Consolidation: IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation — Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 10 on its consolidated financial statements.

(iv) Disclosure of Interests in Other Entities: IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 12 on its consolidated financial statements.

(v) Fair Value Measurement: IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 13 on its consolidated financial statements.

(vi) Presentation of Financial Statements: IAS 1 introduces amendments that require the grouping together of items within other comprehensive income (loss) ["OCI"] that may be reclassified to the statement of income. The amendments also reaffirm existing requirements that items in OCI and net income should be presented as either a single statement or two consecutive statements. The amendment to IAS 1 will be effective for the fiscal years beginning on or after January 1, 2013, with earlier application permitted. The Company does not expect any changes to the consolidated financial statement presentation from this amendment.

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

5. Discontinued Operations

In May, 2013, the Company formally commenced the process to divest its Animal Health business and concentrate on becoming a Human Health company. The divestment is expected to be completed within the next 12 months. Animal Health is a reportable segment for business and reporting purposes. At June 30, 2013, the Animal Health business was classified as held for sale and as a discontinued operation. Immediately before the classification of the Animal Health business, the recoverable amount of the assets were evaluated against their estimated fair value less costs to sell, and no impairment losses were noted on any of the assets in the disposal group.

Results of the Animal Health business for the year ended June 30:	**2013 $**	2012 $
Revenues	**31,467**	29,812
Expenses	**27,817**	30,597
Income (loss) before income taxes	**3,650**	(785)
Income tax expense	**302**	109
Net income (loss) for the year	**3,348**	(894)
Basic and fully diluted earnings per Share		
From discontinued operations	**0.03**	(0.01)

Statement of Cash Flows for the Animal Health business:	**2013 $**	2012 $
Net income (loss)	**3,348**	(894)
Items not affecting cash	**2,291**	1,224
Change in non-cash working capital	**—**	730
Cash provided from (used in) operating activities	**5,639**	1,060
Cash used in investing activities	**(43)**	(58)
Cash used in financing activities	**(151)**	(169)
Net increase in cash during the year	**5,445**	833

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

5. Discontinued Operations [cont'd]

Statement of Financial Position for the Animal Health business:	As at June 30, 2013 $
ASSETS	
Current	
Cash and cash equivalents	**345**
Trade and other receivables	**4,066**
Inventories	**7,989**
Prepayments	**366**
	12,766
Non-current	
Property, plant and equipment	**5,682**
Intangible assets	**857**
Goodwill	**456**
Deferred tax assets	**342**
Total assets	**20,103**
LIABILITIES	
Current	
Trade and other payables	**3,240**
Income taxes payable	**225**
Debt	**507**
Total liabilities	**3,972**

TRADE AND OTHER RECEIVABLES

	June 30, 2013 $
Trade	**3,807**
Other	**259**
	4,066

Trade receivables are non-interest bearing and are generally on 30-90 day terms. As at June 30, 2013, trade receivables of an initial value of $74 [2012: $12] were impaired and fully provided for.

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

5. Discontinued Operations [cont'd]

INVENTORIES

	June 30, 2013 $	June 30, 2012 $
Raw materials	**2,553**	2,240
Work-in-process	**2,626**	1,786
Finished goods	**2,810**	3,750
	7,989	7,776

During the year ended June 30, 2013, inventories in the amount of $13,741 were recognized as cost of sales [2012 – $14,085], including provisions for write-downs to net realizable value of $345 [2012 – $475], and a reversal of previously recorded write-downs of $74 [2012 – $37]. As at June 30, 2013, inventories in the amount of $55 are carried at their net realizable value [June 30, 2012 – $28].

6. Cash and Cash Equivalents

	June 30, 2013 $	June 30, 2012 $
Cash at banks	**4,163**	19,942
Short-term deposits	**78**	78
	4,241	20,020

7. Trade and Other Receivables and Other Non-Current Receivables

	June 30, 2013 $	June 30, 2012 $
Trade and other receivables		
Trade	**—**	4,622
Government incentives	**1,467**	1,555
Loans receivable	**56**	88
Research collaboration	**—**	163
Other	**314**	359
	1,837	6,787
Other non-current receivables		
Loans receivable	**103**	183
	103	183

Loans receivable consist of employee salary advances bearing interest rates at 2%, repayable monthly in instalments of up to $3 and maturing in July, 2017, of which $94 is from the Company's Chief Executive Officer and President who is also a Director [2012 – $129]. Included in loans receivable in 2012 is an amount of $8 receivable from the Company's Chief Executive Officer and President who is also a Director. This loan has been repaid in full as at June 30, 2013.

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

8. Property, Plant and Equipment

June 30, 2013	Cost June 30, 2012 $	Additions $	Disposals $	Transfers $	Foreign exchange $	Transfer to discontinued operations $	Cost June 30, 2013 $
Land	1,783	—	—	—	(35)	(540)	1,208
Buildings	8,132	26	—	—	(90)	(4,754)	3,314
Equipment	8,134	62	(21)	—	(46)	(4,230)	3,899
Equipment under finance lease	371	—	—	—	—	(44)	327
Computer equipment	1,886	54	(12)	—	(1)	(83)	1,844
Automobiles	255	—	—	276	(7)	(329)	195
Automobiles under finance lease	1,587	73	(91)	(276)	(7)	(667)	619
Leasehold improvements	49	—	—	—	1	(50)	—
Construction-in-progress	27,411	1,693	—	—	—	—	29,104
Total	**49,608**	**1,908**	**(124)**	**—**	**(185)**	**(10,697)**	**40,510**

	Accumulated depreciation and impairment June 30, 2012 $	Additions $	Disposals $	Transfers $	Foreign Exchange $	Transfer to discontinued operations $	Accumulated depreciation and impairment June 30, 2013 $
Land	—	—	—	—	—	—	—
Buildings	(1,030)	(466)	—	—	8	839	(649)
Equipment	(5,800)	(360)	21	—	37	3,437	(2,665)
Equipment under finance lease	(106)	(55)	—	—	—	21	(140)
Computer equipment	(1,424)	(145)	12	—	—	35	(1,522)
Automobiles	(250)	(5)	—	(268)	7	321	(195)
Automobiles under finance lease	(816)	(270)	85	268	3	314	(416)
Leasehold improvements	(48)	—	—	—	(1)	49	—
Construction-in-progress	—	(3,710)	—	—	—	—	(3,710)
Total	**(9,474)**	**(5,011)**	**118**	**—**	**54**	**5,016**	**(9,297)**

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

8. Property, Plant and Equipment [cont'd]

	Net carrying value June 30, 2013 $
Land	**1,208**
Buildings	**2,665**
Equipment	**1,234**
Equipment under finance lease	**187**
Computer equipment	**322**
Automobiles	**—**
Automobiles under finance lease	**203**
Leasehold improvements	**—**
Construction-in-progress	**25,394**
Total	**31,213**

	Cost June 30, 2011 $	Additions $	Disposals $	Transfers $	Foreign Exchange $	Cost June 30, 2012 $
June 30, 2012						
Land	1,779	—	—	—	4	1,783
Buildings	7,744	37	—	340	11	8,132
Equipment	7,075	330	(23)	720	32	8,134
Equipment under finance lease	295	148	(6)	(66)	—	371
Computer equipment	1,795	154	(67)	2	2	1,886
Automobiles	244	—	(32)	40	3	255
Automobiles under finance lease	1,362	289	(31)	(40)	7	1,587
Leasehold improvements	71	—	(24)	—	2	49
Construction-in-progress	25,300	3,107	—	(996)	—	27,411
Total	**45,665**	**4,065**	**(183)**	**—**	**61**	**49,608**

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

8. Property, Plant and Equipment [cont'd]

	Accumulated depreciation June 30, 2011 $	Additions $	Disposals $	Transfers $	Foreign exchange $	Accumulated depreciation June 30, 2012 $	Net carrying value June 30, 2012 $
Land	—	—	—	—	—	—	**1,783**
Buildings	(495)	(533)	—	—	(2)	(1,030)	**7,102**
Equipment	(5,341)	(420)	26	(42)	(23)	(5,800)	**2,334**
Equipment under finance lease	(80)	(69)	1	42	—	(106)	**265**
Computer equipment	(1,324)	(160)	61	—	(1)	(1,424)	**462**
Automobiles	(216)	(23)	30	(38)	(3)	(250)	**5**
Automobiles under finance lease	(557)	(306)	10	38	(1)	(816)	**771**
Leasehold improvements	(70)	—	24	—	(2)	(48)	**1**
Construction-in-progress	—	—	—	—	—	—	**27,411**
Total	**(8,083)**	**(1,511)**	**152**	**—**	**(32)**	**(9,474)**	**40,134**

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

8. Property, Plant and Equipment [cont'd]

Capitalized borrowing costs

The Company capitalized borrowing costs related to the construction of the Vaccine Manufacturing Centre (VMC) and the pilot-scale fermentation facility of $1,679 for the year ended June 30, 2013 [2012 – $1,458]. These costs relate to long-term debt and repayable government assistance specifically granted for the construction of these facilities. The rate used to determine the amount of borrowing costs eligible for capitalization was 9.4% [2012 – 8.7%], which is the weighted average effective interest rate of the specific borrowings.

Impairment

During the year ended June 30, 2013, as a result of delays in the commencement of commercial production at the Company's vaccine manufacturing facility, a review of the recoverable amount of the related CGU was carried out. The CGU is the One Health reportable segment. This review lead to the recognition of an impairment loss of property, plant and equipment of $3,710 which has been recorded in research and development expense. The recoverable amount of the assets was determined on the basis of their value in use. The weighted average discount rate used in measuring the value in use was approximately 18.5% per annum [2012 – 27%]. The impairment assessment in the prior year did not result in the recognition of an impairment loss.

9. Intangible Assets

Changes in the net carrying amount of intangible assets are as follows:

	Technology	Patents and trademarks	License agreements	Software	Total
Cost:					
Opening balance — June 30, 2012	11,974	1,033	586	1,047	14,640
Externally acquired	—	—	—	511	511
Foreign exchange	—	—	—	(1)	(1)
Transfer to discontinued operations	(2,460)	(1,033)	(486)	(11)	(3,990)
Ending balance — June 30, 2013	9,514	—	100	1,546	11,160
Accumulated amortization and impairment:					
Opening balance — June 30, 2012	(7,640)	(919)	(491)	(384)	(9,434)
Amortization	(649)	(54)	(80)	(440)	(1,223)
Transfer to discontinued operations	1,684	973	471	6	3,134
Ending balance — June 30, 2013	(6,605)	—	(100)	(818)	(7,523)
Net carrying value — June 30, 2013	**2,909**	**—**	**—**	**728**	**3,637**

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

9. Intangible Assets [cont'd]

	Technology	Patents and trademarks	License agreements	Software	Non-compete agreement	Total
Cost:						
Opening balance — June 30, 2011	11,974	1,033	616	930	121	14,674
Externally acquired	—	—	—	260	—	260
Impairment	—	—	(30)	(143)	(121)	(294)
Ending balance — June 30, 2013	11,974	1,033	586	1,047	—	14,640
Accumulated amortization and impairment:						
Opening balance — June 30, 2011	(6,967)	(854)	(451)	(82)	(14)	(8,368)
Amortization	(673)	(65)	(52)	(302)	—	(1,092)
Impairment	—	—	12	—	14	26
Ending balance — June 30, 2012	(7,640)	(919)	(491)	(384)	—	(9,434)
Net carrying value — June 30, 2012	**4,334**	**114**	**95**	**663**	**—**	**5,206**

During the year ended June 30, 2013, there were no intangible amounts written off [2012 – $125 related the Animal Health segment and $143 related to the Corporate segment].

10. Goodwill

The net carrying amount of Goodwill as of June 30, 2012 and June 30, 2013 is $456 and is allocated to the North American Animal Health cash generating unit ["CGU"]. This amount has been transferred to discontinued operations.

IMPAIRMENT TESTING OF GOODWILL WITHIN THE ANIMAL HEALTH CGU

The recoverable amount of the North American Animal Health CGU was determined immediately prior to the classification of the Animal Health business assets as held for sale. based on the fair value less costs to sell approach. The impairment test was performed using a value in use calculation prepared at June 30, 2012 as the assets and liabilities making up the CGU have not changed significantly. The June, 2012 valuation was deemed appropriate because it provided an amount that exceeded the carrying amount by a substantial margin and the likelihood that the current recoverable amount would be less than the current amount would be remote. The projections used cash flows covering a five-year period with a terminal growth rate of 2% and were discounted using a pre-tax discount rate of 17%. Following the classification of the CGU as held for sale, the Company compared the carrying amount to its fair value less costs to sell determined from confidential offers received. As a result of this analysis, management did not identify any impairment to the goodwill allocated to this CGU.

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

11. Long-Term Debt

	June 30, 2013 $	June 30, 2012 $
[a] Business Development Bank of Canada	**3,672**	4,092
[b] Business Development Bank of Canada	**370**	490
[c] Capital Royalty L.P.	**8,566**	20,496
[d] Paladin Labs Inc.	**22,322**	—
[e] ANZ Bank [June 30, 2013 – A$282; June 30, 2012 – A$328]	**275**	341
[f] Obligation under finance lease — equipment and automobiles, repayable in variable monthly instalments until September 2017, at interest rates ranging from 1.82% to 18.80%	**651**	1,016
	35,856	26,435
Less: long-term debt related to assets classified as held for sale	**(506)**	—
Less: current portion	**(34,874)**	(997)
	476	25,438

[a] On February 7, 2008, the Company entered into a ten-year, $5,000 commercial loan facility with the Business Development Bank of Canada ["BDC"] collateralized by certain property, plant and equipment at the Company's Belleville, Ontario facility with a carrying value of $29,773 net of impairment and subject to certain annual financial and non-financial covenants. The loan is in support of the Vaccine Manufacturing Centre ["VMC"]. On January 11, 2012, the final advance under this loan agreement was received. The loan bears interest at BDC floating base rate plus 2.5% [June 30, 2013 and June 30, 2012 – 7.5%].

Future monthly repayments beginning July 1, 2013 are ninety-one monthly payments of $40 and one final payment of $32. The maturity date of the loan is February 1, 2021.

At June 30, 2013, the effective interest rate on the amount borrowed to date was 7.38% [June 30, 2012 – 7.38%]. As at June 30, 2013, $3,672 [June 30, 2012 – $4,092] has been drawn on this loan facility. From October 24, 2008 to January 11, 2012, the Company paid a monthly standby fee equal to 1.5% per annum on any undrawn portion of the loan facility.

With the announcement of the sale of the Animal Health division, which forms part of the collateral for this loan, the loan was been moved to Current Liabilities.

At June 30, 2013, some covenants under this loan were not met, but a waiver was received prior to this date.

[b] On June 24, 2011, the Company assumed the BDC loan collateralized by certain property at the Company's Montreal, Quebec facility with a carrying value of $748. Under the terms of the loan, monthly payments of $10 plus interest at BDC floating base rate plus 2.0% [June 30, 2013 and June 30, 2012 – 7.0%] are payable until June 1, 2016.

[c] On April 10, 2012, the Company closed a US$20 million [CDN$19.9 million] financing from investment funds managed by U.S.-based Capital Royalty L.P. ["Capital Royalty"]. These funds were received on April 12, 2012, net of a $200 financing fee. The financing involved a five-year term loan. The terms included a 15% interest rate, of which 3% could be deferred and capitalized for the first three years of the term of the loan. An additional royalty interest of 2% will be paid to Capital

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

11. Long-Term Debt [cont'd]

Royalty on all product sales revenues for the term of the loan. Under the terms of the agreement, the Company was required to maintain liquidity of at least $5 million at all times. Revenues in the year ended June 30, 2012 were required to be $26 million and must increase by at least $3 million each subsequent fiscal year. Revenues in excess of the required increase may be carried over in years where net revenues did not increase by at least $3 million.

Under the terms of the loan, the Company could prepay the loan in advance, subject to certain penalties. This prepayment option was considered an embedded derivative that had a fair value at inception and as at June 30, 2012 of nil.

The loan was collateralized by a first priority security interest in all of the Company's assets not pledged to or restricted by other parties with a carrying value of $40,849 at June 30, 2012 and a second position on pledged assets disclosed elsewhere.

The Company estimated the future cash flows of interest, principal and royalty interest associated with this loan facility, and recorded the loan at its effective interest rate of 24%. Total financing fees and transaction costs of $546 were incurred related to this facility and recorded as a reduction of the carrying amount of the loan.

On June 5, 2013, the Company announced that Paladin Labs Inc. ["Paladin"] had acquired the Capital Royalty L.P. debt for US$22 million [see note 11[d]]. Capital Royalty retained the 2% royalty interest on all product sales revenues with no change to the revenue-related terms as described above and an obligation to pay the make-whole amount. As the terms and conditions of the loan had changed substantially, the balance of the loan was extinguished and unaccreted financing fees incurred for the Capital Royalty loan were expensed in full. This resulted in a loss on extinguishment of $8,231. The Company estimated the future cash flows of royalty interest under the assumption that the liability would be settled at its make-whole value within the next 12 months and recorded the revised liability at an effective interest rate of 24%.

[d] On June 5, 2013, the Company announced that Paladin had acquired the Capital Royalty debt for US$22 million (including accrued interest and prepayment penalties payable to Capital Royalty) and had amended the terms of the loan to reflect an annual interest rate of 13.25% payable quarterly; a revised maturity date of July 1, 2014 and a reduction of the minimum liquidity to $2.5 million. The loan is secured by a first priority security interest in all of the Company's assets not pledged to or restricted by other parties with a carrying value of $24,087 and a second position on pledged assets disclosed elsewhere. Paladin will provide an additional US$8 million loan to support ongoing operations, US$5 million upon closing of the amended loan transaction, which occurred on July 5, 2013 and US$3 million available upon the Company receiving equity in the form of licensing revenue or an equity financing prior to September 30, 2013 [see note 24]. Under the terms of the loan, the Company could prepay the loan in advance at an amount of 105% of the outstanding principal balance, subject to certain penalties. This prepayment option was considered an embedded derivative that had a fair value at inception and as at June 30, 2013 of nil. Upon the sale of the Animal Health business, 105% of the principal balance of the loan is due. As part of the loan agreement, the Company granted warrants to acquire 750,000 Common Shares at the 5-day volume weighted average price on the TSX at the date of issuance, which occurred on July 5, 2013 and was determined to be $0.31, and additional warrants to acquire 1,250,000 Common Shares between $0.50 and $1.00. Two additional tranches of warrants to acquire 500,000 Common Shares each at the 5-day volume weighted average price on the TSX will become exercisable on January 1, 2014 and April 1, 2014 if the loan is not repaid by these dates.

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

11. Long-Term Debt [cont'd]

The Company estimated the fair value of the loan as $22,380 using an effective interest rate of 21%. The residual value of $311 was assigned to the warrants and recorded as Other paid-in capital. As the sale of the Animal Health business, which forms part of the collateral for this loan, is expected to take place within the next 12 months, the loan has been recorded as current.

Total financing fees and transaction costs related to this loan facility were $543. These costs have been allocated pro-rata between the loan and the Warrant value. The loan portion of $536 has been recorded as a reduction of the carrying amount of the loan and will be accreted over the term of the loan using the effective interest method. The Warrant portion of $7 has been recorded as a reduction to Other paid-in capital.

[e] The Company entered into a A$547 loan facility with ANZ Bank as of September 30, 2004 repayable over a 15-year term bearing interest at the bank's fluctuating mortgage index rate [June 30, 2013 – 6.78%; June 30, 2012 – 7.43%] plus 1.03%. Principal and interest payments of $6 [A$6] are payable monthly. The Company has provided a first charge over real estate and certain property in Australia with a carrying value of $1,602 [A$1,648] [June 30, 2012 – $1,764 [A$1,694] as collateral for this loan.

The carrying value of long-term debt includes principal repayments and transaction costs. The following table presents the undiscounted contractual repayments of the long-term debt.

	June 30, 2013	June 30, 2012
Within one year	**41,525**	4,705
Between one and five years	**907**	44,356
More than five years	**—**	2,046
	42,432	51,107

12. Repayable Government Assistance

June 30, 2013

	ITO	**MEDT**	**Agri-Ops**	**FedDev**	**Total**
	$	**$**	**$**	**$**	**$**
Opening balance June 30, 2012	**18,561**	**9,132**	**3,166**	**428**	**31,287**
Less: Repayments	**(240)**	**—**	**—**	**(138)**	**(378)**
Less: Changes in estimate	**(7,150)**	**—**	**938**	**60**	**(6,152)**
Accretion of interest	**1,394**	**688**	**456**	**63**	**2,601**
	12,565	**9,820**	**4,560**	**413**	**27,358**
Less: current portion	**(240)**	**(9,820)**	**(4,560)**	**(413)**	**(15,033)**
Total long-term repayable government assistance	**12,325**	**—**	**—**	**—**	**12,325**

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

12. Repayable Government Assistance [cont'd]

June 30, 2012

	ITO $	MEDT $	Agri-Ops $	FedDev $	Total $
Opening balance June 30, 2011	16,449	8,492	2,285	210	27,436
Government assistance loans received	—	—	856	374	1,230
Less: Repayments	—	—	—	(91)	(91)
Less: Changes in estimate	913	—	—	—	913
Less: Interest-free discount	—	—	(366)	(128)	(494)
Accretion of interest	1,199	640	391	63	2,293
	18,561	9,132	3,166	428	31,287
Less: current portion	(240)	—	—	(126)	(366)
Total long-term repayable government assistance	18,321	9,132	3,166	302	30,921

[a] INDUSTRIAL TECHNOLOGY OFFICE

Under the federal contribution program with Industry Canada's Industrial Technology Office ["ITO"], the Company is entitled to a reimbursement of eligible operating and capital expenses incurred in the development and commercialization of *Urocidin*™ and the *E. coli* O157:H7 cattle vaccine to a maximum of $9,600 and $7,600, respectively. The *E. coli* O157:H7 vaccine project reached the maximum eligible reimbursement under the program during the year ended June 30, 2011. The *Urocidin*™ project reached the maximum eligible reimbursement under the program during the year ended June 30, 2009. Both projects reached their agreed expenditure levels during the year ended June 30, 2011.

[i] *Urocidin*™

Under an amendment to the *Urocidin*™ agreement with ITO, the maturity date for the project was extended to September 30, 2011; royalties potentially payable to ITO, commencing upon regulatory approval for commercialization, are 6% of gross project revenues, to a cap of $11,278, and annual cash payments of $960 for five years, commencing with the occurrence of either regulatory approval for commercialization or by an agreement with a partner for either funding of the clinical development of the product or for the commercialization of the product, but no earlier than June, 2010. The signing of a licensing agreement for the development and marketing of *Urocidin*™ in the U.S. on July 10, 2009 triggered the requirement to make annual cash payments of $960 for five years. The total amount of this obligation was recorded at its estimated fair value at that time of $3,884 using a discount rate of 7.5% as repayable government assistance with a corresponding expense of $3,884. The discount is being amortized over the term of the loan using the effective interest method.

On November 6, 2011, the Company and ITO again amended the terms of the *Urocidin*™ agreement to extend the maturity date of the project to October 31, 2012 and revise annual cash payments to $240 in each of October, 2012 and 2013 and $960 in each of October, 2014, 2015 and 2016 with a final payment of $1,031 in October, 2017. This modification of the term of the agreement resulted in a financial income of $260.

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

12. Repayable Government Assistance [cont'd]

ITO has exercised its option to withhold the last 10% of the funding for the *Urocidin*™ project until the project is completed, currently estimated to be January, 2014. An amount of $960 has been recorded as government incentives receivable.

A liability has been recorded for the probable royalties payable on future sales of *Urocidin*™ as described above. Management periodically re-measures this obligation based on updated forecasts of future sales discounted at 7.5%. At June 30, 2013, this change in estimate resulted in a carrying amount of $7,495 [2012 – $6,794] and financial income of $1,168 [2012 – financial expense of $612].

[ii] *E. coli* O157:H7 cattle vaccine

Under the terms of the *E. coli* O157:H7 cattle vaccine agreement, the maturity date for the project was extended to March 31, 2013 and royalties payable to ITO related to gross project revenues, commencing no earlier than July 1, 2010 and no later than July 1, 2014 or the first day of the fiscal year where gross revenue exceeds $500, were set at 2.5% to a cap of $13,638.

A liability has been recorded for the probable royalties payable on future sales of *E. coli* vaccine. Management periodically re-measures this obligation based on updated forecasts of future sales discounted at 7.5%. At June 30, 2013, this change in estimate resulted in a carrying amount of $1,643 [2012 – $6,794] and financial income of $5,866 [2012 – financial expense of $561].

[b] MINISTRY OF ECONOMIC DEVELOPMENT AND TRADE, AGRI-OPPORTUNITIES AND THE DEPARTMENT OF AGRICULTURE AND AGRI-FOOD (CANADA) PROGRAMS

On December 18, 2007, the Company announced that it was eligible to receive up to $10,000 in Ontario government financing in the form of a loan from the Ontario Ministry of Economic Development and Trade's 'Advanced Manufacturing Investment Strategy' program ["MEDT"] to fund eligible expenditures made by the Company since April 12, 2007, to scale-up a vaccine production facility in Belleville, Ontario. During the incentive period, which runs until August 22, 2013, the loan is interest-free provided the Company meets certain targets by the end of the incentive period. To reflect the benefit of the interest-free period, the loan was discounted to its estimated fair value at inception using a discount rate of 6.5% with the discount shown as a government grant. The discount will be amortized over the interest-free portion of the term of the loan, using the effective interest method. No principal payments are due during the incentive period. Interest at 5.69% begins to accrue on the first day following the incentive period. Beginning August 22, 2014, an annual payment of 20% of the principal balance plus accrued interest to that date becomes due. The loan is collateralized by a second charge on certain property, plant and equipment at the Company's Belleville, Ontario facility with a carrying value of $29,773.

With the announcement of the sale of the Animal Health division, which forms part of the collateral for this loan, the loan is now presented as current since the Company has the intention to repay the loan in the next year.

On December 20, 2007, the Company announced that it was eligible to receive up to $5,000 in federal government financing in the form of a loan from the Department of Agriculture and Agri-Food (Canada) 'Agri-Opportunities' Program ["Agri-Ops"] to fund eligible expenditures made by the Company since September 21, 2007, and to scale-up the aforementioned vaccine production facility. The loan is interest-free. To reflect the benefit of the interest-free status of the loan, the loan is discounted to its estimated fair value using a discount rate of 13.5% with the discount shown as a government grant. The discount will be

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

12. Repayable Government Assistance [cont'd]

amortized over the term of the loan using the effective interest method. Principal repayment begins July 1, 2013, with payments of $83 per month. During the year ended June 30, 2012, the Company received the last advances of $856, bringing the total advanced to $5,000.

With the announcement of the sale of the Animal Health division, the loan is now presented as current since the Company has the intention to repay the loan in the next year. This change in estimate of the timing of future cash flows resulted in a financial expense of $938.

On April 19, 2010, the Company announced that it was eligible to receive up to $750 in federal government financing in the form of an interest-free loan from the Federal Economic Development Agency for Southern Ontario ["FedDev"] to fund the development of a pilot-scale fermentation facility as part of the Company's Vaccine Manufacturing Centre, currently being validated at the Belleville facility. During the year ended June 30, 2012, the Company received advances of $374. To reflect the benefits of the interest-free status of the loan, the advance has been discounted to its estimated fair value using a discount rate of 16% with the discount recorded as government assistance. The discount will be amortized over the term of the loan using the effective interest method. Principal repayment began November 1, 2011, with payments of $11 per month.

With the announcement of the sale of the Animal Health division, the loan is now presented as current since the Company has the intention to repay the loan in the next year. This change in estimate of the timing of future cash flows resulted in a financial expense of $60.

[c] NON-REFUNDABLE INVESTMENT TAX CREDITS

The Company has available non-refundable investment tax credits of $12,187 as at June 30, 2013 related to research and development expenditures which may be utilized to reduce federal income taxes payable in future years and expire as follows:

	$
2020	93
2021	301
2022	532
2023	594
2024	981
2025	1,000
2026	1,018
2027	1,031
2028	790
2029	915
2030	1,144
2031	1,514
2032	1,404
2033	870
	12,187

The benefits of these non-refundable investment tax credits have not been recognized in the consolidated financial statements.

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

12. Repayable Government Assistance [cont'd]

[d] SUMMARY OF GOVERNMENT ASSISTANCE

The government assistance recorded as a reduction of research and development expenses in continuing operations is as follows:

For the years ended June 30	2013 $	2012 $
FedDev interest-free discount	—	7
ITO/TPC holdback	(270)	—
Investment tax credits	778	282
	508	289

13. Employee Benefits

Employee benefits expense in continuing operations consists of the following:

For the years ended June 30	2013 $	2012 $
Wages and salaries	7,071	7,424
Benefits	979	764
Stock-based compensation	480	554
Shares issued to Directors	54	—
Defined benefit plan	191	67
Employer payments to defined contribution plans	498	507
Termination benefits	161	318
	9,434	9,634

Termination benefits represent severance amounts payable as a result of personnel downsizing.

EMPLOYEE CONTRIBUTION PLAN

The Company has a defined contribution pension plans for its Canadian employees. Contributions to these plans are expensed as incurred. The Company funded and charged to expense during the year ended June 30, 2013, for the defined contribution plan, an amount of $787 of which $523 was paid in Shares [2012 – $819 of which $819 was paid in Shares]. An additional $67 was accrued at June 30, 2013 and paid in Shares in July 2013 [2012 – $65]. Contribution plan Shares were also issued to employees of the discontinued operations during the year ended June 30, 2013 in the amount of $40 [2012 – $57].

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

13. Employee Benefits [cont'd]

EMPLOYEE BENEFIT PLAN

During the year ended June 30, 2011, the Company agreed to sponsor an unfunded defined benefit plan for its President and Chief Executive Officer based on years of service and final pay. The Company uses an actuarial estimate to measure the accrued benefit obligation. At June 30, 2013, the value was $2,066 [2012 – $1,875]. Changes in the value of this obligation are included within administration expenses. The significant actuarial assumptions used by the Company to determine its accrued benefit obligations are outlined below.

	June 30, 2013 $	June 30, 2012 $
Employee benefit liability:		
Balance, beginning of year	**1,875**	1,808
Past service cost	**—**	—
Current service cost	**57**	57
Interest cost	**59**	79
Actuarial loss (gain)	**75**	(69)
	2,066	1,875
Less: current portion	**(199)**	—
Long-term portion	**1,867**	1,875

The cumulative amount of actuarial gains or losses recognized since July 1, 2010 in income is ($1).

The principal assumptions used in determining the pension obligation are as follows:

	June 30, 2013 $	June 30, 2012 $
Discount rate for net periodic benefit costs	**2.50%**	4.25%
Discount rate for benefit obligation	**2.50%**	3.75%
Estimated rate of compensation increase per year	**—**	3.00%
Weighted average estimated retirement age	**67**	70

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

14. Shareholders' Equity

SHARE CAPITAL

Authorized and issued

The authorized capital of the Company is as follows:

- unlimited number of Common Shares with no nominal or par value; and
- unlimited number of Preferred Shares issuable in series with no par value

[a] PREFERRED SHARES — SERIES I

On June 1, 2011, all Series I shareholders were informed of the Company's intent to redeem these Shares for $1,000 per Share. The redemption occurred in July, 2011 with the payment of $156 in cash and $5 added to Other paid-in capital.

[b] COMMON SHARES

Number of Shares	**June 30, 2013**	June 30, 2012
Beginning of year	**103,574,370**	102,108,692
Employee Share ownership plan	**1,851,774**	1,452,053
Director's remuneration	**159,601**	—
Options exercised	**2,098**	13,625
End of year	**105,587,843**	103,574,370

[i] Employee Share ownership plan

The Company has an employee Share ownership plan in Canada whereby the Company matches contributions made by employees for the purpose of purchasing the Company's stock. The Company's portion of this plan is recorded as a stock-based compensation expense in the period incurred. During the year ended June 30, 2013, the Company issued 1,851,774 Common Shares [2012 – 1,452,053] under this plan totaling $563 [2012 – $875]. As at June 30, 2013, an amount of 247,721 Common Shares under this plan remain to be issued [2012 – 162,244] and an amount of $77 [2012 – $70] has been recorded in current liabilities.

[ii] Directors' remuneration

During the year ended June 30, 2013, the Company paid remuneration to Directors in the form of Company stock, issuing 159,601 Common Shares [2012 – nil] totaling $54 [2012 – nil]. As at June 30, 2013, an amount of 54,840 Common Shares remain to be issued [2012 – nil] and an amount of $17 has been recorded in current liabilities [2012 – nil].

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

14. Shareholders' Equity [cont'd]

[c] WARRANTS

The Company had no Warrants outstanding as at June 30, 2013.

The following table summarizes information about the changes in the number of Warrants outstanding during the years ended June 30:

	2013		2012	
	Warrants #	Weighted average exercise price $	Warrants #	Weighted average exercise price $
Outstanding, beginning of year	100,000	0.77	300,000	0.92
Expired	(100,000)	0.77	(200,000)	1.00
Outstanding, end of year	—	—	100,000	0.77

Included in the terms of the loan purchase by Paladin Labs Inc. is the issuance of the Warrants as follows:

Warrants #	Issue Price
750,000	5-day VWAP share price
500,000	$0.50
250,000	$0.70
250,000	$0.85
250,000	$1.00
500,000	5-day VWAP share price on January 1, 2014 if loan has not been repaid by this date
500,000	5-day VWAP share price on April 1, 2014 if the loan has not been repaid by this date

These Warrants were issued July 5, 2013 with the 5-day volume weighted average Share price ["VWAP"] of the first tranche determined to be $0.31. The fair value of these Warrants was estimated by determining the fair value of the Paladin loan at 21% to determine the breakdown between the loan value and the value of the Warrants. This value will be applied proportionately based on the Black Scholes Option pricing model. The value of these Warrants totaling $303 has been recognized at June 5, 2013 upon signature of the Paladin loan [note 11] as other paid-in capital.

All Warrants shall expire on the earlier of two years from complete repayment of the loan facility or May 31, 2019, subject to TSX and ASX approval.

[d] STOCK OPTION PLAN

The Company's stock Option plan grants Options to key employees and Directors of the Company to purchase Common Shares of the Company. The number of Shares available at any time for issuance is equal to 10% of the Company's issued and outstanding Common Shares. As at June 30, 2013, the maximum number of Common Shares available to be issued under the plan cannot exceed 10,558,784. Under this plan, the Company has issued 6,461,974 [2012 – 4,172,359] stock Options. In

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

14. Shareholders' Equity [cont'd]

addition, outside of the stock Option plan ["Additional Options"], 4,000 Options were issued to a consultant and 100,000 Options remain outstanding from an employment inducement granted in Fiscal 2006. [2012 – 6,000 and 100,000], bringing total outstanding Options to 6,565,974 at June 30, 2013 [2012 – 4,278,359].

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

During the year ended June 30, 2013, the Company did not issue any fully vested Options [2012 – 2,000 three-year fully vested Options with an exercise price of $0.87] to consultants.

During the year ended June 30, 2013, the Company issued 2,645,868 Options to employees and Directors vesting over five years at an exercise price of $0.35 [2012 – nil].

A summary of the status of the Company's stock Option plan as at June 30, 2012 is presented below:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding #	Weighted average remaining contractual life [years] #	Weighted average exercise price $	Number exercisable #	Weighted average exercise price $
$0.35 to $0.44	4,847,603	3.1	0.39	1,302,877	0.44
$0.87 to $0.93	104,000	2.5	0.90	104,000	0.90
$1.46 to $2.00	1,614,371	2.6	1.49	605,748	1.46
	6,565,974	3.0	0.67	2,012,625	0.77

The following table summarizes information about stock Options outstanding at June 30:

	2013		2012	
	#	$	#	$
Outstanding, beginning of year	**4,278,359**	**0.89**	5,770,642	1.17
Granted	**2,645,868**	**0.35**	2,000	0.87
Exercised	**(2,098)**	**0.44**	(13,625)	0.44
Forfeited	**(79,155)**	**0.70**	(1,159,657)	1.98
Expired	**(277,000)**	**0.93**	(321,001)	2.11
Outstanding, end of year	**6,565,974**	**0.67**	4,278,359	0.89

The weighted average Share price of the Company's stock during exercise of Option for the year ended June 30, 2013 is $0.58 [2012 – $0.63].

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

14. Shareholders' Equity [cont'd]

During the year ended June 30, 2012, the Company issued 2,098 [2012 – 13,625] Shares on the exercise of employee stock Options for cash consideration of $1 [2012 – $6]. This amount, plus the previously expensed fair value of these Options of $0 [2012 – $3] which was removed from Other paid-in capital, was added to Share capital.

The fair value of Options granted during the year ended June 30, 2013 and 2012 was estimated using the Black Scholes Option pricing model, resulting in the following weighted-average assumptions:

	2013	2012
Risk-free interest rate	**4.00%**	3.00%
Expected volatility	**81.6%**	51.6%
Expected option life	**4.5 years**	3.0 years
Dividend yield	**0%**	0%
Weighted-average fair value of options granted	**$0.21**	$0.34

The expected life of the stock Options is based on historical data and current expectation and is not necessarily indicative of exercise patterns that may occur. Volatility is determined based on the four-year and five-year share price history. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the Options is indicative of future trends, which may also not necessarily be the actual outcome.

15. Management of Capital

The Company's capital management objectives are to safeguard its ability to continue as a going concern [see note 1] and to fund its research and development activities, to pursue its commercialization efforts and to maintain its ongoing operations. To secure the additional capital necessary to pursue these plans, the Company has undertaken to sell its Animal Health division. The Company may also attempt to raise additional funds through the issuance of debt or equity, and by entering into strategic partnerships which will generate funds to finance its operations.

In the management of capital, the Company includes shareholders' equity, long-term debt and repayable government assistance.

The Company has provided covenants to certain lenders which include ratios that address debt service coverage as well as the maintenance of a daily minimum cash balance of $2.5 million until the last payment on July 1, 2014. At June 30, 2013, some covenants under the BDC loan were not met but a waiver was received prior to this date.

	June 30, 2013 $	June 30, 2012 $
Shareholders' (deficiency) equity	**(12,542)**	15,748
Long-term debt [including current portion]	**35,350**	26,435
Repayable government assistance [including current portion]	**27,358**	31,287
	50,166	73,470

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

16. Financial Instruments

CLASSIFICATION OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are measured on an ongoing basis at fair value or amortized cost. The classification of the financial instruments, as well as their carrying values and fair values, are shown in the tables below:

	Carrying Amount		Fair Value	
	June 30, 2013 $	June 30, 2012 $	**June 30, 2013 $**	June 30, 2012 $
Financial assets				
Cash and cash equivalents	**4,241**	20,020	**4,241**	20,020
Cash and cash equivalents held for sale	**345**	—	**345**	—
Trade and other receivables[1]	**1,533**	6,597	**1,533**	6,597
Trade and other receivables held for sale	**4,066**	—	**4,066**	—
Other non-current receivables	**103**	183	**103**	183
Total financial assets	**10,288**	26,800	**10,288**	26,800
Financial liabilities				
Trade and other payables[2]	**5,195**	6,665	**5,195**	6,665
Trade and other payables held for sale	**3,240**	—	**3,240**	—
Long-term debt[3]	**34,930**	25,419	**34,930**	25,419
Long-term debt held for sale	**507**	—	**507**	—
Repayable government assistance	**27,358**	31,287	**27,358**	31,287
Total financial liabilities	**71,230**	63,371	**71,230**	63,371

1 Excluding non-financial assets comprised of provincial and federal sales taxes and tax credits receivable totaling $304 [June 30, 2012 – $190].

2 Excluding non-financial liabilities comprised of provincial and federal sales and capital taxes and amounts that will be settled in shares totaling $103 [June 30, 2012 – $48].

3 Excluding obligations under finance lease of $420 [June 30, 2012 – $1,016].

FAIR VALUE HIERARCHY

Financial instruments recorded at fair value on the consolidated statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs in making the measurements. The fair value hierarchy has the following levels:

Level 1 — valuation based on quoted prices observed in active markets for identical assets or liabilities.

Level 2 — valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 — valuation techniques with significant unobservable market inputs.

A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

16. Financial Instruments [cont'd]

FAIR VALUES

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgment is required to develop these estimates. Accordingly, the estimated fair values are not necessarily indicative of the amounts the Company could realize in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies. The methods and assumptions used to estimate the fair value of financial instruments are described below:

- Given their short-term maturity, the fair value of accounts receivable and accounts payable and accrued liabilities approximate their carrying values.
- Long-term accounts receivable are carried at amortized cost. As each component has been discounted at a rate the Company would expect for similar receivables, the amortized cost approximates fair value.
- The fair value of long-term debt, excluding the Capital Royalty and Paladin loans, is approximately equal to the carrying value due to the variable rates of interest charged on these loans.
- Repayable government assistance is carried at their amortized cost, which approximates fair value due to the use of discount rates the Company would expect for similar loans.
- The fair value of the Capital Royalty revenue interest has been estimated based on the discounted value of cashflow outlays of principal, interest and royalty interest using an effective interest rate of 24%.
- The fair value of the Paladin loan has been estimated based on the discounted value of cashflow outlays of principal and interest using an effective interest rate of 21%.

FOREIGN CURRENCY RISK

The Company operates internationally and a substantial portion of its revenue from product sales is denominated in U.S. dollars, Euros and Australian dollars. This results in financial risk due to fluctuations in the value of the Canadian dollar relative to these currencies. The Company has a natural hedge for a portion of this risk, in that many of its expenditures are in U.S. dollars, Euros and Australian dollars. Fluctuations in payments made for the Company's products could cause unanticipated fluctuations in the Company's consolidated operating results. At June 30, 2013 and June 30, 2012, the Company has not entered into any currency hedging contracts to manage foreign currency risk.

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

16. Financial Instruments [cont'd]

The significant balances in foreign currencies are as follows:

	June 30, 2013			June 30, 2012		
	USD	**EURO**	**AUS**	USD	EURO	AUS
Cash and cash equivalents						
Continuing operations	**3,472**	**—**	**—**	18,195	47	959
Discontinued operations	**59**	**89**	**141**	—	—	—
Trade and other receivables						
Continuing operations	**—**	**—**	**—**	3,483	192	396
Discontinued operations	**2,388**	**244**	**464**	—	—	—
Trade and other payables						
Continuing operations	**(1,558)**	**(97)**	**(62)**	(1,351)	(96)	(442)
Discontinued operations	**(527)**	**(20)**	**(622)**	—	—	—
Long-term debt						
Continuing operations	**(30,190)**	**—**	**—**	(20,520)	—	(328)
Discontinued operations	**—**	**—**	**(282)**	—	—	—
Total	**(26,356)**	**216**	**(361)**	(193)	143	585

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

16. Financial Instruments [cont'd]

Based on the above net exposure as at June 30, 2013 and 2012, and assuming that all other variables remain constant, a 10% appreciation or depreciation of the Canadian dollar against the other currencies would have resulted in the following impact on net loss and comprehensive loss:

	Canadian dollar			
	Appreciate 10%		Depreciate 10%	
2013	**Net loss $**	**Other comprehensive loss $**	**Net loss $**	**Other comprehensive loss $**
Against the U.S. dollar				
Continuing operations	**(2,957)**	**—**	**2,957**	**—**
Discontinued operations	**65**	**136**	**(65)**	**(136)**
Against the Euro				
Continuing operations	**(13)**	**—**	**13**	**—**
Discontinued operations	**43**	**—**	**(43)**	**—**
Against the AUS dollar				
Continuing operations	**(6)**	**—**	**6**	**29**
Discontinued operations	**—**	**(29)**	**—**	**—**
Decrease (increase)	**(2,868)**	**107**	**2,868**	**(107)**
2012				
Against the U.S. dollar	(233)	213	233	(213)
Against the Euro	14	4	(14)	(4)
Against the AUS dollar	—	61	—	(61)
Decrease (increase)	(219)	278	219	(278)

CREDIT RISK

Credit risk is the risk of an unexpected loss if a counterparty to a financial instrument fails to meet its contractual obligations.

Trade and other receivables in continuing operations consists primarily of government incentives. As at June 30, 2013, accounts receivable with respect to these government incentives represented 23% of current assets [June 30, 2012 – 4%].

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

16. Financial Instruments [cont'd]

Continuity of allowance for doubtful accounts	**June 30, 2013 $**	June 30, 2012 $
Allowance at beginning of year	**12**	17
Charge for the year	**113**	56
Utilized	**(51)**	(53)
Unused amounts reversed	**(1)**	(7)
Effect of exchange on provision	**1**	(1)
Allowance at end of year	**74**	12

The Company monitors the credit risk and credit standing of counterparties on a regular basis. Concentrations of credit risk with respect to trade accounts receivable are limited due to the large number of customers and their dispersion across many geographic areas.

	June 30, 2013 $	June 30, 2012 $
Current and not impaired	**3,221**	3,579
Past due in the following periods		
31 to 60 days	**544**	674
61 to 90 days	**53**	307
Over 90 days	**63**	74
Allowance for doubtful accounts	**(74)**	(12)
Trade accounts receivable	**3,807**	4,622

At June 30, 2013, there is no concentration of customers [2012 — three customers comprised 30% of trade receivables].

Cash is held with one Canadian chartered bank, one U.S. bank, one Irish bank and one Australian bank.

The maximum extent of the Company's exposure to credit risk is the aggregate carrying value of the Company's financial assets.

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

16. Financial Instruments [cont'd]

LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meets its financial obligations as they fall due. The Company's objective is to provide for expected cash requirements and accommodate for changes in liquidity needs. The Company manages this risk by managing its capital structure, through continuous monitoring of its actual and projected cash flows.

The following are the undiscounted contractual maturities of financial liabilities:

June 30, 2013	Total $	1 year $	2–3 years $	4–5 years $	More than 5 years $
Trade and other payables					
Continuing operations	**5,195**	**5,195**	**—**	**—**	**—**
Discontinued operations	**3,240**	**3,240**	**—**	**—**	**—**
Long-term debt					
Continuing operations	**41,397**	**41,129**	**258**	**10**	**—**
Discontinued operations	**329**	**70**	**140**	**119**	**—**
Repayable government assistance	**34,364**	**16,044**	**2,420**	**4,542**	**11,358**
Total	**84,525**	**65,678**	**2,818**	**4,671**	**11,358**

June 30, 2012	Total $	1 year $	2–3 years $	4–5 years $	More than 5 years $
Trade and other payables	6,665	6,665	—	—	—
Long-term debt	49,981	4,236	14,019	29,680	2,046
Repayable government assistance	44,037	377	10,412	19,570	13,678
	100,683	11,278	24,431	49,250	15,724

INTEREST RATE RISK

Financial instruments that potentially subject the Company to cash flow interest rate risk are those assets and liabilities with a variable interest rate. Accounts receivable and accounts payable and accrued liabilities bear no interest. The BDC and ANZ loan facilities which are included in long-term debt have variable interest rates. Based on the carrying value of these variable

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

16. Financial Instruments [cont'd]

interest-bearing liabilities, an assumed 25 basis point ["pts."] increase or decrease in interest rates during the year ended June 30, 2013 would have resulted in an increase (decrease) in net loss and comprehensive loss as follows:

	Interest rate	
	Increase 25 pts. $	**Decrease 25 pts. $**
Decrease (increase) in net loss and comprehensive loss		
Continuing operations	(11)	11
Discontinued operations	(1)	1

Financial assets and financial liabilities that bear interest at fixed rates are subject to fair value interest rate risk. Certain cash equivalents bear interest at a fixed rate but are not deemed significant due to the short term of the investment. Long-term accounts receivable bear no interest but are carried at amortized cost, calculated using discount rates appropriate to each component. The Company's obligations under finance leases, the Paladadin loan and Capital Royalty interest are at fixed rates of interest. The Company's repayable government assistance are non-interest bearing as described in note 12. They are carried at amortized cost, calculated using discount rates appropriate to each component.

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

17. Segmented Financial Information

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

No operating segments have been aggregated to form the reportable operating segments. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

	June 30, 2013			
	Human Health $	One Health $	Corporate $	Total $
Revenues				
Research collaborations	**82**	**—**	**—**	**82**
	82	**—**	**—**	
Expenses	**—**	**1,792**	**5,408**	**7,200**
Income (loss) before other expenses	**82**	**(1,792)**	**(5,408)**	**(7,118)**
Research and development expenses	**9,536**	**7,231**	**—**	**16,767**
Less: government assistance	**(778)**	**270**	**—**	**(508)**
Net research and development expenses	**8,758**	**7,501**	**—**	**16,259**
Financial (income) expenses	**(281)**	**(4,682)**	**13,454**	**8,491**
Foreign exchange loss	**—**	**—**	**1,923**	**1,923**
Income (loss) before income taxes from:				
Continuing operations	**(8,395)**	**(4,611)**	**(20,785)**	**(33,791)**
Segment assets	**6,832**	**28,233**	**6,335**	**41,400**
Segment liabilities	**12,243**	**20,307**	**37,523**	**70,073**
Purchases of property, plant and equipment	**—**	**308**	**102**	**410**

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

17. Segmented Financial Information [cont'd]

	June 30, 2012				
	Human Health $	**One Health $**	**Animal Health (disc. operation) $**	**Corporate $**	**Total $**
Revenues					
Product	—	—	29,811	—	29,811
Research collaborations	1,986	—		—	1,986
	1,986	—	29,811	—	31,797
Expenses	—	2,167	22,567	8,132	32,866
Income (loss) before other expenses	1,986	(2,167)	7,244	(8,132)	(1,069)
Research and development expenses	11,047	3,471	6,031	—	20,549
Less: government assistance	(282)	(7)	—	—	(289)
Net research and development expenses	10,765	3,464	6,031	—	20,260
Financial expenses (income)	1,089	794	53	1,227	3,163
Foreign exchange gain	—	—		(413)	(413)
Income (loss) before income taxes	(9,868)	(6,425)	1,160	(8,496)	(24,079)
Provision for income tax expense (recovery)	—	—	109	—	109
Segment assets	7,794	29,480	24,010	20,868	82,152
Segment liabilities	13,019	24,184	4,707	24,494	66,404
Goodwill	—	—	456	—	456
Purchases of property, plant and equipment	279	3,917	575	93	4,864

Segmented financial information analyzes the operations of the Company by the following geographic locations, based on the location of its customers. Revenues by geographic region related to continuing operations are detailed as follows:

For the years ended June 30	**2013 $**	2012 $
Canada	**—**	28
United States	**82**	1,958
Total revenue	**82**	1,986

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

17. Segmented Financial Information [cont'd]

Long-term assets by geographic region are comprised of property, plant and equipment, intangible assets and goodwill as detailed below:

	June 30, 2013 $	June 30, 2012 $
Canada	**34,850**	43,426
United States	**—**	299
Australia	**—**	2,071
	34,850	45,796

18. Income Taxes

A reconciliation between tax expense and the product of accounting income multiplied by the basic income tax rate for the years ended June 30, 2013 and 2012 is as follows:

	2013 $	2012 $
Loss before income taxes from continuing operations	**(33,791)**	(23,294)
Income (loss) before income taxes from discontinued operations	**3,650**	(785)
Loss before income taxes	**(30,141)**	(24,079)
Basic income tax rate	**27.42%**	27.42%
Computed income tax recovery	**(7,999)**	(6,603)
Effect on income tax rate resulting from:		
Unrecorded potential tax benefits of current period losses and other tax assets	**7,519**	6,177
Accounting charges not deductible for tax purposes	**734**	428
Other	**48**	107
Income tax expense reported in the statement of loss	**—**	—
Income tax expense attributable to discontinue operations	**302**	109
	302	109

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

18. Income Taxes [cont'd]

As at June 30, 2013, the Company has non-capital losses of approximately $53,638 for Canadian federal and Ontario purposes and $45,889 for Quebec purposes that are available to offset future taxable income. These losses expire as follows:

	Federal and Ontario $	Québec $
2015	2,426	1,721
2026	3,767	2,046
2027	7,204	6,348
2028	7,283	5,766
2029	4,609	4,692
2030	1,016	—
2031	4,099	3,250
2032	10,510	9,540
2033	12,724	12,526
	53,638	45,889

The Company has the following non-capital losses available for carryforward in foreign jurisdictions in discontinued operations:

	$	Expiry
Ireland	3,945	Unlimited
Australia	9,309	Unlimited

The Company has Scientific Research and Experimental Development ["SRED"] expenditures of approximately $63,582 [2012 – $59,235] for federal and Ontario income tax purposes and $77,357 [2012 – $72,695] for Quebec income tax purposes, which have not been deducted. These expenditures are available to reduce future taxable income and have an unlimited carryforward period. Research and development tax credits and expenditures are subject to verification by the tax authorities and, accordingly, these amounts may vary.

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

18. Income Taxes [cont'd]

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows:

	Consolidated Statement of Financial Position		Consolidated Statement of Loss	
	June 30, 2013 $	June 30, 2012 $	**June 30, 2013 $**	June 30, 2012 $
Deferred tax assets				
Intra-group profit deferred tax	**184**	377	**(193)**	(330)
Net operating loss carryforwards	**17,513**	13,715	**3,798**	3,369
Net capital loss carryforward	**44**	—	**44**	—
Tax basis of property, plant and equipment and intangible assets in excess of carrying values	**2,618**	1,608	**1,010**	517
Research and development expenditures	**17,061**	15,782	**1,279**	2,574
Deferred government assistance	**3,229**	4,191	**(962)**	(445)
Unpaid severance and other accrued liabilities	**184**	229	**(45)**	15
Deferred pension expense in excess of contributions	**548**	512	**36**	(62)
Financing fees	**692**	589	**103**	(35)
Royalty interest charge	**2,056**	—	**2,056**	—
Other	**59**	67	**(8)**	(40)
Less: valuation allowance	**(42,739)**	(35,336)	**(7,403)**	(5,727)
Deferred tax assets	**1,449**	1,734	**(285)**	(164)
Deferred tax liabilities				
Excess of fair market value over tax basis of land	**62**	72	**10**	—
Revaluation of a loan to fair value	**57**	—	**(57)**	—
Carrying value of intangible assets in excess of tax basis	**988**	1,153	**165**	134
Total deferred tax liabilities	**1,107**	1,225	**118**	134
Net deferred tax assets	**342**	509	**(167)**	(30)

Reflected in the statements of financial position as follows:

Deferred tax assets:		
Continuing operations	**892**	987
Discontinued operations	**557**	746
Deferred tax liabilities:		
Continuing operations	**(892)**	(987)
Discontinued operations	**(215)**	(237)
Deferred tax assets, net	**342**	509

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

18. Income Taxes [cont'd]

Reconciliation of deferred tax assets, net:

	2013 $	2012 $
Opening balance as at June 30	**509**	539
Deferred tax expense attributed to discontinued operations	**(167)**	—
	342	509

The income tax benefits relating to the future tax assets have been recognized to the extent of the future tax liabilities under the liability method of tax allocation.

Significant components of the income tax expense are as follows:

	2013 $	2012 $
Current tax expense	**135**	79
Deferred income tax expense	**167**	30
	302	109

19. Commitments and Contingencies

COMMITMENTS

The Company is committed under various operating leases for buildings and equipment to total future minimum lease payments as follows:

	Continuing operations	Discontinued operations	Total $
Within one year	30	127	157
Between one and five years	51	209	260
More than five years	—	—	—
	81	336	417

Total operating lease expense recorded in the consolidated statements of loss for the year ended June 30, 2013 was $336 [2012 – $286].

In addition to the royalties described in note 12[a], the Company is committed to paying royalties ranging from 1% – 5% as a result of certain license agreements on the sales of certain products on the commercialization of specific technologies or products.

CONTINGENCIES

The Company is involved from time to time in litigation, which arises in the normal course of business. In respect of these claims the Company believes it has valid defenses and/or has made adequate provision for such claims. The Company believes that no material exposure exists on the eventual settlement of such litigation.

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

19. Commitments and Contingencies [cont'd]

The Company participates in research and development funding arrangements, some of which, based on management's best estimates, are recorded as a reduction in the related cost and some as a deferred government incentives obligation. The funding arrangements are subject to audit by the contributors. Any adjustments which could be material will be made in the period in which they are known.

The Company periodically enters into research agreements with third parties that include indemnification provisions that are customary in the industry. These guarantees generally require the Company to compensate the other party for certain damages and costs incurred as a result of damages arising from these transactions. In some cases, the maximum potential amount of future payments that could be required under these indemnification provisions is unlimited. These indemnification provisions generally survive termination of the underlying agreement. The nature of the indemnification obligations prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay. Historically, the Company has not made any indemnification payments under such agreements and no amount has been accrued in the accompanying consolidated financial statements with respect to these indemnification obligations.

20. Consolidated Statements of Cash Flows

For the years ended June 30	**2013** **$**	2012 $
Net change in non-cash working capital balances:		
Trade and other receivables	**891**	1,471
Prepayments	**344**	(11)
Inventories	**(341)**	1,001
Trade and other payables	**1,306**	(305)
Income taxes payable	**127**	374
	2,327	2,530

Included in trade and other payables are liabilities in the amount of $94 which the Company has the option to settle through the issuance of shares [2012 – $70].

Supplemental cash flow information:

For the years ended June 30	**2013** **$**	2012 $
Cash paid for		
Income taxes	**13**	—
Interest	**3,185**	915
	3,198	915
Non-cash investing and financing activities		
Acquisitions of equipment and automobiles under finance lease	**70**	578

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

21. Financial Expenses (Income)

For the years ended June 30	2013 $	2012 $
Cash interest		
Interest on long-term debt	**3,096**	1,003
Other interest expense	**24**	25
Interest income	**(34)**	(60)
Less: capitalized borrowing costs	**(294)**	(229)
Non-cash interest		
Accretion on government incentives	**(63)**	(134)
Accretion on repayable government assistance	**2,601**	2,293
Accretion on long-term debt	**2,467**	528
Change in term of long-term debt	**8,231**	—
Change in estimate on repayable government assistance *[note 12]*	**(6,152)**	913
Less: capitalized borrowing costs	**(1,385)**	(1,229)
	8,491	3,110

22. Depreciation and Amortization Expense

	2013 $		2012 $	
For the years ended June 30	**Intangible assets**	**Property, plant and equipment**	Intangible assets	Property, plant and equipment
Cost of sales	**68**	**258**	83	330
Administration	**440**	**308**	302	272
Marketing and selling	**—**	**219**		260
Research and development	**715**	**516**	707	649
	1,223	**1,301**	1,092	1,511

23. Related Party Transactions

In addition to related party transactions disclosed in note 11[e], the Company paid one Director $44 [2012 – two Directors $41] in consulting fees and purchased inventory items from a company owned by a Director in the amount of $52 [2012 – $38]. The Company received payment for services provided to a company owned by a Director of $4 [2012 – two companies $106]. Some of these costs have been included in discontinued operations.

During the year ended June 30, 2013, no advances were given to key management personnel [2012 – $55]. Loans bear interest at 2% and are repayable over five years. At June 30, 2013, the balance of all loans to key management was $149 [2012 – $258].

(thousands of Canadian dollars or other currencies, except where noted and for Share and per Share amounts)

23. Related Party Transactions [cont'd]

The compensation earned by key management personnel related to continuing operations, determined as being all members of the executive team and Directors, in aggregate was as follows:

For the years ended June 30	2013 $	2012 $
Wages and salaries	2,632	2,650
Benefits	257	210
Stock-based compensation	261	269
Shares issued to Directors	54	—
Defined benefit plan	191	67
Employer payment of defined contribution plans	194	189
Termination benefits	155	289
	3,744	3,674

The compensation earned by employed dependants of key management personnel was as follows:

For the years ended June 30	2013 $	2012 $
Wages and salaries	61	63
Benefits	12	12
Employer payment of defined contribution plans	6	6
	79	81

Some of the Company's key management personnel [excluding Directors] have entered into agreements whereby, in the event of a change of control, they would receive two years' base salary compensation assuming termination of employment as a result of a change of control.

24. Subsequent Events

On September 18, 2013, the Company filed an underwritten public offering, issuing 33,808,620 Units at a price of $0.29 per unit for gross proceeds of $9,804, including $800 from a private placement. Each unit is composed of one Common Share and one-half of one Common Share Purchase Warrant. Each whole Share Purchase Warrant entitles the holder to acquire one Common Share at a price of $0.40 per Common Share until September 18, 2015. Expenses of the offering include 7% underwriter fees of $686, the issuing of 2,172,414 two-year compensation Warrants to purchase one Common Share at a price of $0.29 and the issuing of 194,190 two-year finder Options to purchase one Common Share at a price of $0.33. On September 26, 2013, the Company received net proceeds of $8,996 upon the closing of the offering.

On September 11, 2013, the Company announced that it had reached a settlement with its concerned shareholders. The Company has agreed to pay $500 to partially reimburse for expenses incurred by the concerned shareholders in the dispute and to appoint one of these shareholders to the Board of Directors immediately. Half of the reimbursement funds will be reinvested in the Company by participation in the public offering described above.

Board Mandate and Governance Guidelines

The Company has adopted a Board Mandate and Governance Guidelines (collectively, Corporate Governance Charter) to implement and maintain a culture of good corporate governance both internally and in its external dealings. This document is available on the Company's website, www.Bioniche.com, under "About Us" — "Board of Directors".

The Board Mandate sets out the responsibilities of the Board of Directors and the Governance Guidelines address matters such as Board composition and Directors' independence, further details of which are set out below.

Board Mandate

The mandate of the Board of Directors (the "Board") is to enhance long-term value for shareholders. Its role shall be of a supervisory nature and, in the discharge of its mandate, it shall assume responsibility for broad corporate policies and for the overall effective and ethical performance of the Company through the oversight of the Executive team.

The Executive team shall be responsible for the day-to-day operations of the Company, for properly informing the Board of the status of operations, for taking the lead in developing operating and strategic plans, and for identifying and managing the risks inherent therein.

Any responsibility not delegated to the Executive team or a Committee of the Board remains with the Board. The Board will review and may periodically modify this document as appropriate to reflect the evolution of its governance practices.

The Board will, directly or through its Committees, assume specific responsibility for the following functions:

- strategic planning;
- risk assessment;
- succession planning;
- communications policy;
- accounting and financial reporting systems, internal controls and disclosure controls and procedures;
- environment, health and safety.

In accordance with the Governance Guidelines, the Board conducted an annual self-evaluation during Fiscal 2013 to determine whether it and its Committees were functioning effectively.

Board Composition and Independence

The Company's goal is to ensure that a majority of the Board is composed of Directors who have no material relationship with the Company and who, in the reasonable opinion of the Board, must be unrelated and independent under the laws, regulations and listing requirements to which the Company is subject. If the Executive team or other Directors become aware of a relationship that may compromise the independency of a Director, the concern will be raised with the Corporate Governance and Nominating Committee. The Committee will evaluate the situation and make its recommendation to the Board. The Corporate Governance and Nominating Committee will be asked to evaluate each Director's independence annually.

The Board will monitor the mix of skills and experience of its Directors in order to assure that it has the necessary tools to perform its oversight function effectively. When a Director's principal business association changes significantly, the Director will advise the Corporate Governance and Nominating Committee which shall consider the continued appropriateness of that Director for Board service and make its recommendation to the Board.

Board of Directors

Mr. James Rae — Chairman and Non-Executive Director (Independent)

(Appointed July 27, 2012)

Mr. James Rae has been the CEO of London, Ontario-based Viron Therapeutics Inc. since 2007. He has considerable experience in financing from public, private and government sectors and in deal-making with multinational companies. Following 18 years at pharmaceutical company, Searle, latterly as CEO, he was President and CEO of Cangene, a publicly-listed biotech company where he was responsible for restructuring and orchestrating a reverse takeover of the company at a significant multiple. Mr. Rae was previously Chairman and CEO of Vaxis Therapeutics in Kingston, Ontario, Chairman and CEO of Resolution Pharma in Toronto, Ontario and, more recently, CEO of Cytochroma Inc., a Markham, Ontario-based biotech company which he transitioned from a research entity into one advanced in clinical development with a diversified product base. Mr. Rae was most recently the Chairman of Montreal-based Aegera Therapeutics, which was

acquired by Pharmascience Inc. in late 2011. He presently holds directorships in three Canadian biotech companies and has previous experience as a Director on the Boards of a number of publicly-traded biotechnology companies.

Mr. Rae brings to the Company:

- a wealth of experience in both governance and management roles in the biopharmaceutical sector;
- manufacturing, marketing, financial and research and development experience in pharmaceutical and biotechnology firms;
- financing and deal-making expertise; and
- extensive network of contacts — inside and outside the sector.

Dr. Stanley Alkemade — Non-Executive Director (Non-Independent)

(Appointed September 1, 1999)

Dr. Stanley Alkemade received his veterinary degree from the University of Melbourne, Australia. Dr. Alkemade came to Canada in 1971 and ran a mixed veterinary practice in Seaforth, Ontario for the next ten years. He has lectured in the Animal Health Technology program at the Centralia College of Agricultural Technology. In 1986, Dr. Alkemade joined Vetrepharm Canada Inc. as Technical Director and was responsible for research and development, product registrations, corporate technical services and facilities design. In February, 2012, Dr. Alkemade retired as Founder of Worldwide BioMedEx, a project management firm for the pharmaceutical industry.

Dr. Alkemade has been involved in a number of governance and administrative roles within Bioniche Life Sciences Inc. and its predecessor companies since 1982.

Dr. Alkemade brings to the Company:

- 14 years of veterinary practice experience in five countries;
- 9 years' experience as Research, Technical Services and Quality Control Director for Vetrepharm/Bioniche;
- 16 years' experience as President of a global pharmaceutical industry consulting company (quality assurance, protocol design, biostatistics and intellectual property);
- patent knowledge, as holder of more than 40 global patents in bioscience, cryobiology, immunology, reproduction, arthrology, urology, insecticides and dental devices;
- governance experience, having served on 17 Boards of Directors since 1972; and
- experience as Canadian Equestrian Team Veterinarian for endurance and reining competitions.

Mr. Albert Beraldo — Non-Executive Director (Independent)

(Appointed November 6, 2008)

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

Mr. Beraldo brings to the Company:

- Chartered Accountant designation; ability to understand and interpret financial statements;
- 25 years' experience in varying roles within the pharmaceutical/biotechnology industry, including ownership/management of two currently operating companies in the pharmaceutical and medical devices sectors;
- experience in deal-making, including in-licensing, out-licensing and financial markets;
- full understanding of regulatory processes; and
- experience with GMP manufacturing facility requirements (involved in construction of two such facilities).

Mr. Rod Budd — Non-Executive Director (Independent)

(Appointed November 9, 2011)

Mr. Rod Budd was a partner in Ernst & Young for 25 years until his retirement in 2010. For the last eight years of his term, he was the Canadian firm's life sciences practice leader. Mr. Budd graduated from Concordia University in 1974 with a Bachelor of Commerce in accounting and finance and obtained his CA in 1977 (in Québec and Ontario). He has over 35 years of experience in public accounting, serving emerging and

growth companies, with a focus on life sciences companies, from start-ups to large multinationals. Mr. Budd advises a number of private companies, and is the Chairman of the Board and chairs the Audit Committee of Immunotec Inc.

Mr. Budd brings to the Company:

- broad financial acumen; ability to review and understand financial statements and reports, budgets, forecasts and other financial information from the perspective of a financial professional;
- audit experience; ability to review auditors' plans, activities and reports and ensure they are meeting professional standards and corporate requirements;
- extensive knowledge of the life sciences industry; awareness of industry trends; and
- extensive experience working with Boards of Directors of public companies.

Dr. Margaret (Peggy) Cunningham — Non-Executive Director (Independent)

(Appointed October 24, 2003)

Dr. Cunningham has a Ph.D. in marketing from Texas A&M University and an MBA from the University of Calgary. Dr. Cunningham is currently the Dean, Faculty of Management and R.A. Jodrey Chair at Dalhousie University. She formerly held the position of Director, School of Business Administration, Dean of Research, Faculty of Management, and R.A. Jodrey Chair at the university. Previously, she was a Professor of Marketing, Director of the Centre for Corporate Social Responsibility, and Director of the Accelerated MBA program at the School of Business, Queen's University. She had fifteen years of business experience in various service industries before becoming an academic.

Dr. Cunningham brings to the Company:

- knowledge of corporate governance and ethical business standards;
- expertise in stakeholder engagement and relationship management;
- branding and strategic marketing acumen;
- expertise in research study design and implementation;
- leadership and administrative experience in both the for-profit and non-profit sectors; and
- a network of senior decision-makers in the business, government and non-profit sectors.

Mr. Gregory Gubitz — Non-Executive Director (Independent)

(Appointed September 12, 2013)

Mr. Gregory Gubitz is an independent advisor to various life science companies and private equity firms. He also serves as Director on the Board of biOasis Technologies and is Chair of Big Life Foundation Canada. Mr. Gubitz served as Senior Vice President, Corporate Development and General Counsel of Biovail Corporation, Canada's largest publicly traded pharmaceutical company. In that capacity, he was responsible for M&A and product acquisitions for global legal operations, culminating in the very successful $7B merger of Biovail and Valeant International. Prior to Biovail, Mr. Gubitz spend 10 years with MDS Capital, a leading North American venture capital company focused on healthcare. As COO of MDS, Mr. Gubitz was responsible for nine public and private venture funds, 20 investment professionals and $1B under management. Prior to MDS, Mr. Gubitz was a partner at one of Canada's leading international law firms. Mr. Gubitz graduated from McGill University with Great Distinction and was called to the Ontario Bar in 1984.

Mr. Gubitz brings to the Company:

- legal acumen
- experience in healthcare M&A
- financial markets expertise; and
- an extensive network of healthcare and venture capital contacts.

Dr. James Johnson — Non-Executive Director (Independent)

(Appointed September 1, 1999)

Dr. James Johnson is Principal and Founder of Johnson, Marcou & Isaacs, LLC, a U.S.-based law firm specializing in intellectual property and patent law. Dr. Johnson specializes in opinions, patent prosecution and licensing of chemical technology, pharmaceutical technology and biotechnology. He has earned a J.D. with honors from Emory University, a Ph.D. in biochemistry and law degree from Emory University's School of Medicine, and a Bachelor of Arts degree in Chemistry from the University of the South. Previously, Dr. Johnson was a partner of the law firm King & Spalding LLP based in Atlanta, Georgia. Prior to that, he was a partner of the law firm Kilpatrick Stockton. Dr. Johnson has extensive experience in chemical and biotechnology patent prosecution and licensing.

Dr. Johnson brings to the Company:

- extensive experience in chemical and biomedical patent prosecution and licensing of chemical and biomedical technology;
- past experience as a senior research scientist and general counsel within and outside of the pharmaceutical industry;
- knowledge of U.S. and European pharmaceutical companies; and
- governance experience, having served on seven Boards of Directors, five of which were with public companies.

Mr. Graeme McRae — President, Chief Executive Officer and Director (Executive Director)

(Appointed June, 1979)

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

Mr. Nick Photiades — Non-Executive Director (Independent)

(Appointed September 17, 2009; resigned December 6, 2012)

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

Mr. Photiades brought to the Company:

- management/finance experience, including involvement in direct equity investments and/or syndicated transactions exceeding $1B in total;
- expertise in banking and venture capital transactions for companies in the life sciences sector;
- governance experience, having served on the Boards of Directors of 15 private and public companies in Canada and the U.S.;
- a network of industry and government contacts in Canada and internationally; and
- experience in audit, legal, financing, deal-making and strategy.

The Hon. Lyle Vanclief — Non-Executive Director (Independent)

(Appointed September 20, 2005)

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

The Hon. Mr. Vanclief brings to the Company:

- extensive knowledge of Canadian government and bureaucratic operations, structures and processes;
- governance experience, having served on Boards of Directors locally, provincially and federally;
- experience as an advisor to both non-profit agencies and companies;
- leadership of successful fundraising campaigns;
- certification as a Professional Agrologist, with a broad understanding of the agricultural industry; and
- an Institute of Corporate Directors designation (ICD.D).

Dr. Armen Aprikian — Observer (Independent)

(Appointed November 9, 2008)

Dr. Armen Aprikian graduated from the University of Sherbrooke Medical School in Québec in 1985 and completed his urology residency training at McGill University in 1990. He then pursued a 3-year research and clinical fellowship in urologic oncology at Memorial Sloan Kettering Cancer Centre in New York City. In 1993, he was appointed Assistant Professor of Surgery (Urology) at McGill University and began his career in prostate and bladder cancer research and as a clinical urologic oncologist. In 1998, he became the McGill Division of Urology Training Program Director and in 2000, he established the Annual Canadian Senior Resident Urologic Oncology Course which runs to this day. In 2004, he became the Head of the Division of Urology at McGill University and the Chief of Urology at the McGill University Health Centre (MUHC). In 2007, he became Full Professor of surgery and in 2009, he was appointed the Medical Director of the MUHC Cancer Care Mission and Department of Oncology.

Dr. Aprikian brings to the Company:

- specialization in clinical urologic oncology and bladder cancer;
- university administrative experience;
- experience in oncology clinical trial design and execution; and
- governance experience, having served on the Boards of Directors of four philanthropic and academic organizations.

Board Committees

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

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

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

Each of the abovementioned committees reviews and evaluates, at least annually, its performance and the performance of its members, including, if applicable, reviewing compliance with its Charter, as well as skill sets and diversity. Members of these Committees may include individuals who are not Directors.

AUDIT COMMITTEE

The Committee is intended to facilitate and provide a means of open communication between the Executive management team ("Executive"), the external auditors and the Board.

The Committee was established to assist the Board in fulfilling its oversight responsibilities with respect to the following areas:

- The Corporation's accounting and financial reporting requirements;
- the Corporation's external audit function; internal control and management information systems;
- the Corporation's compliance with law and regulatory requirements;
- the Corporation's risks and risk management policies; and
- such other functions as are delegated to it by the Board.

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

The members of the Audit Committee are:

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

The Audit Committee Charter is available on the Company's website, www.Bioniche.com, under "About Us" — "Board of Directors".

RISK COMMITTEE

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

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

Areas of risk include, but are not limited to:

- adequate insurance coverage, including product liability and Directors and Officers;
- safeguarding the environment;
- disaster recovery;

- business continuity, succession planning;
- safeguarding employees and safeguarding humans and animals involved in the Company's research and development procedures; and
- privacy.

The members of the Risk Committee are:

- The Hon. Lyle Vanclief (Chair);
- Dr. Stanley Alkemade;
- Mr. Rod Budd;
- Mr. Graeme McRae (Management Member);
- Ms. Cindy Benning (Management Member); and
- Mr. Brian Ford (Management Member).

The Risk Committee Charter is available on the Company's website, www.Bioniche.com, under "About Us" — "Board of Directors".

CORPORATE GOVERNANCE AND NOMINATING COMMITTEE

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

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

The members of the Corporate Governance and Nominating Committee are:

- The Hon. Lyle Vanclief (Chair);
- Dr. Margaret Cunningham; and
- Mr. James Rae.

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

The Corporate Governance and Nominating Committee Charter is available on the Company's website, www.Bioniche.com, under "About Us" — "Board of Directors".

COMPENSATION COMMITTEE

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

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

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

The members of the Compensation Committee are:

- Mr. James Rae (Chair);
- Dr. James Johnson; and
- Dr. Margaret Cunningham.

The Compensation Committee Charter is available on the Company's web-site, www.Bioniche.com, under "About Us" — "Board of Directors".

SCIENTIFIC AUDIT COMMITTEE

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

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

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

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

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

The members of the Scientific Audit Committee are:

- Dr. James Johnson (Chair);
- Dr. Stanley Alkemade;
- Dr. Armen Aprikian*; and
- Mr. Graeme McRae.

Reporting Members are:

- Ms. Monique Champagne (Management Member);
- Dr. Danbing Ke (Management Member);
- Ms. Roslyn Krol (Management Member);
- Mr. Xiaogang Li (Management Member);
- Dr. Aleksandar Masic (Management Member);
- Dr. Maira Medellin Pena (Management Member);
- Mr. Graeme McRae (Management Member); and
- Dr. Iqubal Velji (Management Member).

The Scientific Audit Committee Charter is available on the Company's website, www.Bioniche.com, under "About Us" — "Board of Directors".

Each Committee is empowered to seek independent professional advice at the expense of the Company as outlined in the individual Committee Charters.

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

Board Compensation

Each outside Director is paid C$17,000 per annum, half in cash and half in shares, C$1,350 cash for each meeting of the Board or Committee meeting attended in person and C$450 for each telephone Board meeting. In addition, the Lead Director is paid C$11,700 per annum and the Chair of the Audit Committee is paid C$18,000 per annum. The Chair of the Board is paid C$45,000 per annum.

Dr. Alkemade is also a consultant to the Corporation and, for the financial year ended June 30, 2013, received consulting fees in the amount of C$36,435. The following table sets forth all annual compensation paid to each outside Director, before deductions, for the financial year ended June 30, 2013.

Name	Fees earned (C$)	Share-based awards ($)	Option-based Awards (C$)	Non-equity incentive plan compensation (C$)	Pension value (C$)	All other compensation (C$)	Total (C$)
Stan Alkemade	28,750	8,500	5,498	0	0	36,435	79,183
Armen Aprikian*	17,500	8,500	5,498	0	0	0	31,498
Albert Beraldo	27,850	8,500	5,498	0	0	0	41,848
Rod Budd	53,950	8,500	5,498	0	0	0	67,948
Margaret (Peggy) Cunningham	36,400	8,500	5,498	0	0	0	50,398
James Johnson	31,000	8,500	5,498	0	0	0	44,998
Nick Photiades***	12,025	2,125	0	0	0	0	14,150
Jim Rae**	70,803	7,889	21,990	0	0	0	100,682
Lyle Vanclief	54,850	8,500	5,498	0	0	0	68,848

* Observer

** appointed as the new Chairman of the Board on July 27, 2012

*** served on the Board until December 6, 2012

ATTENDANCE RECORD

The attendance record of each Director for the 31 Board and 30 Committee and Sub-Committee meetings held from July 1, 2012 to September 9, 2013 is as follows:

Director	Board In-Person /Phone	Audit	Corp. Gov. & Nominating	Compensation	Scientific Audit	Risk	Deals	Ferghana Litigation	Special Committee
Stanley Alkemade	31	N/A	N/A	N/A	3	N/A	N/A	N/A	N/A
Armen Aprikian*	6	N/A	N/A	N/A	2	N/A	N/A	N/A	N/A
Albert Beraldo	25	3	N/A	0	N/A	N/A	0	1	5
Rod Budd	27	6	N/A	2	N/A	2	N/A	N/A	6
Peggy Cunningham	30	6	6	3	N/A	N/A	N/A	N/A	N/A
James Johnson	30	N/A	N/A	3	3	N/A	0	2	N/A
Graeme McRae	31	N/A	4	1	3	2	0	3	N/A
Nick Photiades***	5	3	3	N/A	N/A	1	0	3	N/A
James Rae**	25	N/A	5	1	N/A	N/A	N/A	N/A	7
Lyle Vanclief	30	6	7	N/A	N/A	2	N/A	N/A	7

* Observer

** James Rae was appointed to the Board on July 27, 2012

*** Served on the Board until December 6, 2012.

Code of Ethical Conduct and Business Practices

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

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

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

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

- fees, commissions or payments of any kind may be paid only for clearly stated business purposes and reasonable expenses may be incurred when employees entertain customers, prospective employees or business associates;
- employees must abide by the Company's purchasing policy when purchasing goods or services and selecting vendors/suppliers;
- agreements with consultants engaged by the Company must clearly state the actual services to be performed by the consultant and the basis for earning the fee involved, which must be reasonable having regard to the value of the services rendered and
- the maintenance of all tangible and intangible assets of the Company in good working order, safeguarded from harm, theft, loss or misuse.

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

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

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

The Code of Conduct is available on the Company's website, www.Bioniche.com, under "About Us" — "Vision and Values".

Communication with Shareholders

The Company is governed by the disclosure rules outlined in National Instrument 51-102. The Company must adhere to these rules in relation to its communication of information to the public. This involves periodic delivery of materials to shareholders, a public file for viewing at www.SEDAR.com, as well as through the ASX website at www.ASX.com.au for public viewing and information posted on our website. Pursuant to a number of waivers granted to the Company at the time of listing on the ASX in January, 2011, the Australian Securities Exchange has agree to abide by the disclosure obligations outlined in N.I. 51-102.

Role of Management

The Board of Directors expects management to propose and, after Board approval, to execute, the Company's strategic direction, long-term plans, goals and targets, and to be accountable for the Corporation's financial and competitive performance. The Board expects the Company's resources to be managed in a manner consistent with enhancing the value of the Company, within the law, and with consideration for ethics and corporate social responsibility.

The Board also expects management to provide the Board with timely, complete and accurate information on the operations of the Company. The quality, completeness and timeliness of this information provided to the Board are critical to the proper functioning of the Board. The Chairman of the Board and the Chairs of the Committees monitor the nature of the information requested by and provided to the Board to determine if the Board can be more effective in identifying challenges and opportunities for the Company.

Ms. Cindy Benning — Senior Vice-President, Operations, Quality and Regulatory Affairs

Ms. Cindy Benning joined the Company in 1993 as Quality Control Supervisor. Ms. Benning was appointed to the position of Vice-President, Corporate Quality & Regulatory Affairs in December 2001. In July of 2005, she took on additional responsibilities related to the Company's operations. Her current title is Senior Vice-President of Operations, Quality & Regulatory Affairs. Ms. Benning has held various positions in Quality Control and/or Regulatory Affairs. Ms. Benning holds a Technology Diploma in Biological Sciences from St. Clair College and also graduated with a Bachelor of Science Degree from the University of Waterloo in 1998. She earned her MBA from Athabaska University in 2010.

Ms. Debi Butler — Vice-President and Corporate Controller

Ms. Debi Butler is a Certified General Accountant with an Honours Bachelor of Commerce degree from Laurentian University. Ms. Butler joined Bioniche in 2000 and held progressive roles in the Company's finance department before being appointed as Corporate Controller in 2009 and Vice-President and Corporate Controller in 2012. Ms. Butler has over thirty years of accounting experience gained in the fields of banking, public accounting and both private and publicly traded entities.

Ms. Monique Champagne — Vice-President, Clinical Research

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

Mr. Rick Culbert — President, Bioniche One Health

Mr. Rick Culbert has a diploma from Animal Health Technology from Centralia College of Agricultural Technology and is a graduate of the Advanced Agricultural Leadership Program, University of Guelph. Mr. Culbert joined Bioniche (then Vetrepharm Inc.) in 1980 as the Ontario Regional Manager. Mr. Culbert has held progressively senior roles in the Animal Health division of the Company before being appointed as President of Bioniche Animal Health Canada, Inc. in 2002 and he was promoted to President, Bioniche Food Safety (now Bioniche One Health) in July, 2007. Mr. Culbert is a member of the Canadian Animal Health Institute's Board of Directors.

Mr. Mohamed Elrafih — Vice-President, Manufacturing Operations

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

Mr. Brian Ford — Chief Financial Officer

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

the University of Guelph, and is a Member of the Ontario Institute of Chartered Accountants.

Mr. Andrew Grant — President, Bioniche Animal Health (Global)

Mr. Andrew Grant joined Bioniche in 1998 as General Manager, Bioniche Animal Health A/Asia. In 2001, Mr. Grant was promoted to Managing Director, Bioniche Animal Health A/Asia and held that position until his transfer to Managing Director, Bioniche Animal Health, Europe and the Middle East in 2004. In 2007, Mr. Grant was promoted to Divisional President, Bioniche Animal Health Export Sales, Europe and Australia and, in January, 2011, he was appointed as President of the global Bioniche Animal Health operations. Mr. Grant graduated from Saint Stanislaus College, Bathurst, NSW, Australia and holds a certificate in Marketing from the University of Technology in Sydney, Australia. Mr. Grant is also a member of the Australian Institute of Company Directors. Prior to his employment with Bioniche, Mr. Grant was a National Field and Product Manager for Boehringer Ingelheim in Australia.

Mr. Bruce McLeod — Vice-President, Human Resources*

Mr. Bruce McLeod joined the Company in May, 2008. Mr. McLeod has had seven years' experience in both operations and human resources with Farm Credit Canada, most recently as Director of Human Resources. Previously, Mr. McLeod served as the Human Resources Manager with the Saskatchewan Workers' Compensation Board and Instructor in the Business Division of the Saskatchewan Institute of Applied Science and Technology. Mr. McLeod graduated with a B.A. from Carleton University and holds a Certificate in Adult Education from Saint Francis Xavier University.

Ms. Mairi Phillips — Vice-President, Legal Services and Corporate Secretary

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

Mr. Michael Rubin — Vice-President, Business Development

Mr. Rubin joined the Company in 2012 with over 20 years' experience as a Senior Commercial Leader in large and small pharmaceutical companies. He held progressively senior roles in the pharmaceutical industry with Pharmascience Inc., Pfizer Canada, CAE Healthcare, Clinimetrica Inc. and, most recently, Otsuka Canada. Mr. Rubin successfully co-led the establishment of a Canadian subsidiary for a large pharmaceutical company and subsequently launched human health products to profitability. He has a demonstrated ability to launch and grow commercial operations and products, and create innovative business opportunities across both marketing and sales. Mr. Rubin graduated with a BA degree from Concordia University and graduated from the INSEAD Executive Management Program.

Ms. Jennifer Shea — Vice-President, Communications, Investor & Government Relations and Assistant Corporate Secretary

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

The Company has an annual Job Performance Review (JPR) process, which is conducted in the fall of each year. For Fiscal 2012, the Executive Management group did not undergo this process, however, it should be noted that there were no salary increases or bonuses granted to this group in the period. The Executive Management group will undergo JPRs in Fiscal 2013.

* *Mr. McLeod left the Company in May, 2013.*

ADDITIONAL AUSTRALIAN SECURITIES EXCHANGE INFORMATION

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Bioniche's Place of Incorporation

On September 1, 1999 Bioniche Inc. Renaissance Life Sciences Inc. and Vetrepharm Animal Health Inc. amalgamated under the Canadian Business Corporations Act to form Bioniche Life Sciences Inc. The Company is incorporated in Canada.

Chapters 6, 6a, 6b and 6c of the Australian Corporations Act

The Company is not subject to Chapters 6, 6A, 6B and 6C of the Australian Corporations Act 2001 dealing with the acquisition of shares in the Company (including substantial holdings and takeovers).

Limitations on the Acquisition of Securities in Bioniche under Applicable Canadian Law

The following highlights the Canadian legal requirements applicable to persons who wish to acquire a substantial holding in the Company.

The applicable Canadian laws, like their Australian equivalent are very technical. Shareholders should therefore consult their own Canadian legal advisors with respect to these matters rather than relying upon this summary.

EARLY WARNING REPORTING AND CONDUCT OF TAKEOVER BIDS

Canadian securities laws include a comprehensive code governing both the reporting of the acquisition of significant shareholdings and the conduct of takeover bids. For the purposes of these rules, a person is deemed to own all Common Shares and securities convertible into Common Shares that are owned directly or indirectly by or over which control or direction is exercised by, persons acting jointly or in concert with that person. The Company's Common Shares trade on the ASX in the form of CHESS Depositary Instruments (**CDIs**), with each CDI being equal to one Common Share. For the purposes of these rules, the CDIs are considered to be a security convertible into Common Shares.

EARLY WARNING REPORTING

Under applicable Canadian securities legislation, any person who directly or indirectly acquires beneficial ownership of, or the power to exercise control or direction over, Common Shares (or securities convertible into Common Shares) of the Company that, together with any Common Shares held by that person, would constitute 10% or more of the outstanding Common Shares, must forthwith issue a news release in Canada announcing the number of such securities they hold and their intentions with respect to the securities of the Company. A formal report (an "early warning report") setting forth this information is also required to be filed with the Canadian Securities Administrators within two business days of the acquisition of Common Shares (or convertible securities) that results in the person holding 10% or more of such securities.

Whenever a person who has filed an early warning report acquires an additional 2% of the Company's Common Shares (including securities convertible into Common Shares), or if there is a change in a material fact disclosed in a previously filed report, an additional report must be filed within the same time limits.

TAKEOVER BID RULES

Any person who acquires or offers to acquire the Company's Common Shares from a purchaser in a Canadian jurisdiction which would result in that person and any person acting jointly or in concert owning 20% or more of the Company's Common Shares is deemed to be making a takeover bid. The applicable Canadian securities legislation generally provides that takeover bids must:

1. be made available to all holders of Common Shares and securities convertible into common shares;
2. be open for acceptance for a minimum of 35 days;
3. subject to certain exemptions for employment arrangements, offer identical consideration to all shareholders; and
4. be made by a takeover bid circular containing prescribed information about the bidder and its intentions with respect to the Company.

There are also rules that require the bidder to (i) offer consideration in its takeover bid of at least as high a price as, and (ii) at least as great a percentage of securities as the bidder purchased from any other person in the 90 day period preceding the bid.

There are various statutory exemptions available from these rules. In particular, a person may acquire up to 5% of the Company's Common Shares in any 12 month period at prices not in excess of "market price" (plus brokerage). Also, a person may acquire Common Shares of the Company from no more than five persons in private transactions at no more than 115% of "market price".

INSIDER REPORTING

A person who acquires beneficial ownership of, or control or direction over, directly or indirectly, more than 10% of the Common Shares of the Company is considered to be an "insider" of the Company. Each reporting

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insider must file an initial insider report in prescribed form within 10 days of becoming an insider disclosing the holdings of that person. A further insider report must be filed within 5 days of any change in the ownership or control or direction over securities of the Company by that insider.

Insider reports are filed electronically using the System for Electronic Disclosure by Insiders (or SEDI) established by the Canadian Securities Administrators. Further information about SEDI can be found online at sedi.ca.

COMPULSORY OR COMPELLED ACQUISITION

If a person acquires 90% of the outstanding Common Shares in a takeover bid (other than any Common Shares owned by that person, its affiliates and associates at the commencement of the bid) within 120 days after the date of the bid, the offeror may acquire any Common Shares not tendered to the bid by following certain procedures. The shares will be acquired at the price paid in the takeover bid unless the minority shareholder demands that they be acquired at fair value, as determined by the Court. A similar right is granted to shareholders who did not tender the shares in the bid if the bidder has not exercised its compulsory acquisition right. This right to compel acquisition must be made within 90 days of the later of termination of the bid or when the security holder learns of the bid.

Restrictions on Foreign Investment — Investment Canada Act

THE STRUCTURE OF THE ACT

The Investment Canada Act requires that the acquisition of an existing Canadian business by foreign nationals be reviewed by the Investment Review Division of Industry Canada when the book value of the assets of the acquired business exceeds C$5 million for a direct acquisition and over C$50 million for an indirect acquisition. However, under the agreement establishing the World Trade Organisation (**WTO**), a special status is conferred upon nationals of WTO member states and entities controlled by them. The investment threshold limit applicable to direct acquisitions by WTO investors (which includes Australians and Australian controlled companies) is currently C$344 million. The threshold is adjusted annually based on changes to Canada's GDP. Any transaction below the current thresholds is not subject to review unless the Canadian business is a "cultural business", which the Company is not.

In order for a reviewable transaction to be approved by Investment Canada, it must result in a "net benefit" to Canada. The Investment Canada Act sets out a number of factors that are to be taken into account in determining whether a proposed investment is of net benefit to Canada, including the effect of the investment on the level and nature of economic activity in Canada and the degree and significance of participation by Canadians in the business following the investment. Factors such as continued employment and infusion of capital by the acquirer are particularly significant to Investment Canada and assist in meeting the net benefit test.

The establishment of a new business, and an investment by non-Canadians that is not subject to review, are subject only to a notice filing requirement that must be made within 30 days following implementation of the investment.

INVESTMENT REVIEW

If a proposed investment is subject to review, the Minister of Industry (who is responsible for Investment Canada) must approve or reject the proposed investment. If the Minister is not satisfied that a proposed investment is likely to be of net benefit, he will advise the investor, who then has an additional 30 days to present additional arguments before the Minister issues a final decision (unless further extended). The Investment Canada Act allows for negotiations to take place between Investment Canada and the investor to provide for commitments, plans and undertakings, including with respect to the expenditure of certain amounts on capital or technology as well as the maintenance of employment levels or retaining head office functions in Canada so that the application is acceptable to the Minister. The Investment Review Division, in the course of its review, will seek input from provincial governments or other government departments that they believe may be affected by, or have an opinion on, the investment.

COMPETITION REVIEW OF MERGERS

The Competition Act (Canada) defines a merger to include any acquisition, direct or indirect, by one or more persons, by any means of control over, or significant interest in, the whole or part of a business of a competitor, supplier, customer or other person. An acquisition of control of the Company would therefore be a merger for the purposes of this legislation.

The Commissioner of Competition, who administers the Competition Act and is head of the Competition Bureau, may apply to the Competition Tribunal to review a merger or proposed merger where he believes that the transaction may substantially lessen or prevent competition. If the Tribunal determines that a merger or proposed merger prevents or lessens or is likely to prevent or lessen competition substantially, then the Tribunal has the power to prohibit or dissolve the merger or order divestiture of assets

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or shares. The Commissioner may make the application at any time up to one year after a merger has been substantially completed, unless an advance ruling certificate (ARC) was previously issued in connection with that transaction (see below).

PRE-MERGER NOTIFICATION

The parties to a proposed merger must notify the Competition Bureau prior to completion of the transaction where the transaction exceeds a two-part test, which is based on the size of the parties and the size of the transaction. Under the size of the parties test, the parties, together with their affiliates, must have aggregate assets in Canada or annual gross revenues from sales in, from or into Canada, in excess of C$400 million. Under the size of transaction test, the value of the assets in Canada or the annual gross revenue from sales (generated from those assets) in or from Canada of the target operating business and, if applicable, its subsidiaries, must be greater than C$80 million (or in the case of an amalgamation each of at least two of the amalgamating corporations, together with their affiliates, must exceed the C$80 million threshold). Both the size of the parties and size of the transaction thresholds must be exceeded in order for a transaction to be notifiable. The transaction size threshold may be adjusted annually for inflation.

For the purposes of this test, the Competition Act deems the parties to a proposed acquisition of shares to be the person or persons who propose to acquire the shares and the company the shares of which are to be acquired (i.e., the Company, not its shareholders).

With respect to a share acquisition, pre-merger notification is only required where the acquisition of voting shares of a corporation will result in the buyer and its affiliates holding greater than (i) 20% of the shares of a publicly traded corporation, (ii) 35% of the shares where none of the shares are publicly traded, or (iii) 50% of the shares if the buyer(s) already owned more than the percentages in (i) or (ii), as the case may be, before the proposed acquisition.

FILING AND WAITING PERIODS

Once it has been determined that a pre-merger notification is required, the parties cannot complete the transaction until the pre-merger notification requirements have been met and the applicable statutory waiting period has expired.

If a pre-merger notification is required, the parties can submit either a pre-merger notification filing or a request for an ARC.

The pre-merger notification filing requires the disclosure by each party of certain prescribed information, including customer and supplier information and all reports and similar documents that evaluate the proposed transaction with respect to its potential impact on competition. The requirement to supply reports and similar documents that evaluate the impact of the transaction is very similar to the requirement in US antitrust filings. A 30-day waiting period begins with the submission of a complete pre-merger notification filing.

The Commissioner of Competition can extend the initial review period by making a "supplementary information request" (SIR) within the first 30 days, after which time closing can only occur 30 days following the submission of the supplementary information (barring a challenge to the transaction by the Commissioner).

Alternatively, for transactions which are unlikely to raise any significant competition issues, the parties may request an ARC. The ARC request typically consists of a letter from the purchaser describing the parties and the transaction, and explaining why the transaction will not result in a substantial lessening or prevention of competition. The Commissioner may grant the request and issue the ARC, or where there are insufficient grounds to challenge the transaction but the Commissioner does not want to issue an ARC because there may be some competitive overlap between the parties, he may provide the parties with a letter indicating that he will not refer the matter to the Competition Tribunal (a so-called "no action" letter). The Commissioner will also provide the parties with a waiver from the obligation to file a pre-merger notification.

Once an ARC or a no-action letter and waiver has been issued, the parties are free to complete their transaction. Parties may also elect to close upon the expiry of the waiting period, although the Commissioner may seek an interim order from the Competition Tribunal to prevent completion of a transaction if the Commissioner has not yet finished the substantive review of the competitive effects of the transaction.

Prepared as at September 9, 2013

Statement of Issued Capital and Shareholder Information

Statement of Issued Capital at September 9, 2013

DISTRIBUTION OF EQUITY SECURITIES

Analysis of each class of equity securities, including numbers of registered equity security holders by reference to size of holding as described below. Please note that this list does not include beneficial shareholders who hold their shares through intermediaries:

1. Quoted Equity Securities — Common Shares (including CDIs)

Size of Holding	Number of Shareholders	Number of Common Shares (Including CDIs) Held
1 – 1,000	1,002	74,107
1,001 – 5,000	116	277,514
5,001 – 10,000	25	164,162
10,001 – 100,000	46	1,195,058
100,001 and over	13	104,593,680
TOTAL	**1,202**	**106,304,521**

As of September 9, 2013 there are 1,056 shareholders who hold less than a marketable parcel of shares. In accordance with the ASX operating rules, a marketable parcel of shares is a parcel of not less than $500 based on the closing price on the ASX on September 9, 2013.

The Toronto Stock Exchange may delist a company with less than 500,000 freely-tradeable, publicly held securities.

NUMBER OF BIONICHE QUOTED SECURITIES

There are 106,304,521 Common Shares of the Company that are quoted on the Toronto Stock Exchange. Included in these 106,304,521 Common Shares are 2,283,011 Common Shares that are quoted on the ASX in the form of CDIs.

2. Unquoted Equity Securities

NUMBER OF BIONICHE LIFE SCIENCES INC. SECURITIES NOT QUOTED

The following equity securities in the Company are not quoted on the TSX or ASX.

Class of Unquoted Equity Securities	Number of securities
Unlisted Options (issued under the Company's Stock Option Plan)	6,422,118
Unlisted Options (not issued under the Company's Stock Option Plan)	102,000
Warrants	3,000,000

ADDITIONAL AUSTRALIAN SECURITIES EXCHANGE INFORMATION

Prepared as at September 9, 2013

DISTRIBUTION OF UNLISTED OPTIONS — ISSUED UNDER THE COMPANY'S STOCK OPTION PLAN (FIVE YEAR TERM) [DEBI's section]

Size of Holding	Number of Holders	Number of Options Held
1 – 1,000	0	0
1,001 – 5,000	42	161,811
5,001 – 10,000	42	321,770
10,001 – 100,000	114	2,990,360
100,001 and over	19	3,054,177
TOTAL	217	6,528,118

DISTRIBUTION OF UNLISTED OPTIONS — NOT ISSUED UNDER THE COMPANY'S STOCK OPTION PLAN (INCENTIVE OPTIONS)

Size of Holding	Number of Holders	Number of Options Held
1 – 1,000	0	0
1,001 – 5,000	0	0
5,001 – 10,000	0	0
10,001 – 100,000	1	100,000
100,001 and over	0	0
TOTAL	**1**	**100,000**

Cameron Groome holds 100,000 of these options.

DISTRIBUTION OF UNLISTED OPTIONS — NOT ISSUED UNDER THE COMPANY'S STOCK OPTION PLAN (PART OF COMPENSATION FOR CONSULTANT — THREE YEAR TERM)

Size of Holding	Number of Holders	Number of Options Held
1 – 1,000	0	0
1,001 – 5,000	1	2,000
5,001 – 10,000	0	0
10,001 – 100,000	0	0
100,001 and over	0	0
TOTAL	**1**	**2,000**

Bioptima Conseils, Sciences de la Vie Inc. holds 2,000 of these options.

DISTRIBUTION OF UNLISTED WARRANTS

Size of Holding	Number of Holders	Number of Warrants Held
1 – 1,000	0	0
1,001 – 5,000	0	0
5,001 – 10,000	0	0
10,001 – 100,000		
100,001 and over	1	3,000,000
TOTAL	**1**	**3,000,000**

Prepared as at September 9, 2013

Top 20 Shareholders

As at September 9, 2013, the twenty largest registered shareholders, as known by the Company, held in aggregate 105,046,172 of the total common shares in the Company as described below. Please note that this list does not include beneficial shareholders who hold their shares through intermediaries.

Rank	Name of Shareholder	Number of Common Shares	Percentage
1	CDS & CO	78,392,369	73.74
2	CEDE & CO	8,840,962	8.32
3	Renaissance (London) Investments Inc	7,550,752	7.10
4	William M Wells	5,853,322	5.51
5	Chess Depositary Nominees Ltd.	2,343,011	2.20
6	Donitina Circelli	598,005	0.56
7	Brant Investments	204,491	0.19
8	Graeme McRae	200,000	0.19
9	Dr. F J R Knoll	157,444	0.15
10	Margaret Helen Cunningham	156,689	0.15
11	Dr. Martyn J Potter	151,821	0.14
12	Albert Beraldo	144,814	0.14
13	AB Technology Inc.	89,261	0.08
14	Mohamed Elrafih	72,665	0.07
15	Mrs. Barbara McRae	50,327	0.05
16	Dr. Glen Johnson	47,796	0.04
17	Rampage Building Inc.	47,614	0.04
18	Dr. Wayne Gadke	44,984	0.04
19	Dr. H. Llewellyn	44,984	0.04
20	Dr. Allan Mackay	43,861	0.04
Total		**105,046,172**	**98.8%**

Total No of Common Shares Issued: 106,304,521

Substantial Holders

Substantial holders in Bioniche, as known to Bioniche, are set out below:

Name of Substantial Shareholder	Number of Common Shares	Percentage
Renaissance (London) Investments Inc.	7,550,752	7.10%
William M. Wells	5,853,322	5.51%

Restricted Securities

There are no restricted securities or securities subject to voluntary escrow on issue.

Quotation

The Company's Common Shares are quoted as "BNC" on the TSX and CDIs are quoted as "BNC" on the ASX.

Voting Rights

Each Common Share in the Company carries one vote.

Each CDI represents an interest in one Common Share. CDI holders are the beneficial owners of Common Shares, with the legal ownership held in the name of CHESS Depositary Nominees Pty Ltd. CDI holders may direct CHESS Depositary Nominees Pty Ltd, as the legal holder of their Common Shares, on how to vote with respect to resolutions put to vote at the relevant meeting. In the absence of any Canadian laws that prevent CDI holders from attending a meeting of holders of Common Shares, the Company must allow CDI holders to attend the meeting.

Holders of Unlisted Options or Warrants have no voting rights until either the Options or the Warrants (as the case may be) have been exercised.

Prepared as at September 9, 2013

On-Market Buy-Back

Subject to certain conditions and to applicable law, the Company will effect a return of capital to its shareholders in the aggregate amount of 90% of the combined net proceeds greater than $75 million from the sale of the Animal Health business and the VMC, either by way of dividend and/or repurchase of Common Shares.

Use of Funds

In December, 2010 and January, 2011, the Company successfully raised aggregate net proceeds of $26M from concurrent offerings in Canada (TSX) and Australia (ASX). Through the offering documents, the Company indicated that the proceeds were intended to be used for several projects, including $14M for capital projects, $8M for the development of new products through internal research and development, and $5M for the acquisition and licensing of new products to compliment the Animal Health business.

With these funds, the Company was able to complete construction of its Animal Health and Food Safety Vaccine Manufacturing Centre and make significant progress on technologies under development. In addition, the Company introduced several new products acquired through licensing and distribution agreements for its Animal Health business in Fiscal 2012. As at June 30, 2012, the funds from the Offers were fully expended on these efforts.

Corporate Governance Report

The Australian Securities Exchange ("ASX") Corporate Governance Council has developed and released the Corporate Governance Principles and Recommendations to promote investor confidence and assist companies to meet shareholder expectations. The guidelines apply to ASX listed entities. They are not mandatory but are intended to provide a reference point for companies about their corporate governance structures and practices. The Company has conducted an internal review of its corporate governance structures and practices having regard to the ASX Principles and Recommendations.

The following table briefly addresses the areas where the Company has departed from the ASX Principles and Recommendations. The Company's Board of Directors and Management are of the view that, with the exception of the departures from the Recommendations as set out below, the Company has followed the Recommendations set by the ASX Corporate Governance Council.

ASX Corporate Governance Council Recommendations

BIONICHE LIFE SCIENCES INC.		Financial year ended June 30, 2013	
Principle/Recommendation		Location	Follows ASX Recommendation
PRINCIPLE 1 — LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT			
1.1	The entity has established the functions reserved to the Board and those delegated to senior executives.	Corporate Governance section of the 2013 Annual Report	Yes
1.2	The entity has disclosed its process for evaluating the performance of senior executives.	Compensation Discussion and Analysis section of the 2013 Management Information Circular located at SEDAR.com or ASX.com.au	Yes
1.3	The entity has disclosed whether a performance evaluation for senior executives has taken place in the reporting period and whether it was in accordance with the performance evaluation process disclosed in Recommendation 1.2	Expected Role of Management in the Corporate Governance section of the Management Information Circular located at SEDAR.com or ASX.com.au	Yes
	The entity has disclosed a statement of matters reserved for the Board, or the board charter or the statement of areas of delegated authority to senior executives should be made publically available, ideally by posting it to the Company's website in a clearly marked corporate governance section. — Board Charter	About Us/Board of Directors page of the Bioniche.com website for the Board Mandate	Yes
PRINCIPLE 2 — STRUCTURE THE BOARD TO ADD VALUE			
2.1	A majority of the Board should be independent Directors.	Corporate Governance section of the 2013 Annual Report	Yes

Prepared as at September 9, 2013

BIONICHE LIFE SCIENCES INC.		Financial year ended June 30, 2013	
Principle/Recommendation		Location	Follows ASX Recommendation
2.2	The Chair should be an independent Director.	Australian Securities Exchange Information section of the 2013 Annual Report	No for the period of July 1, 2012 to July 26, 2012 Yes from July 27, 2013 to date
2.3	The roles of Chair and Chief Executive Officer should not be exercised by the same individual.	Australian Securities Exchange Information of the 2013 Annual Report	No for the period of July 1, 2012 to July 26, 2012 Yes from July 27, 2013 to date
2.4	The Board should establish a Nomination Committee.	Corporate Governance and Nominating Committee section of the Corporate Governance section of the 2013 Annual Report	Yes
2.5	The entity should disclose the process for evaluating the performance of the Board, its Committees and individual Directors.	Board Mandate section of Corporate Governance section of the 2013 Annual Report	Yes
2.6	The entity should disclose the skills, experience and expertise relevant to the position of Director held by each Director in office at the date of the annual report	Board of Directors section of the Corporate Governance section of the 2013 Annual Report	Yes
	The entity should disclose the names of Directors considered by the Board to constitute independent Directors and the entity's materiality thresholds	Board of Directors section of the Corporate Governance section of the 2013 Annual Report and Related Party Transactions section of the MD&A of the 2013 Annual Report	Yes
	The entity should disclose the existence of any of the relationships listed in 2.1 and an explanation of why the Board considers a Director to be independent, notwithstanding the existence of these relationships	Related Party Transactions section of the MD&A of the 2013 Annual Report	Yes
	The entity should make a statement as to whether there is a procedure agreed by the Board for Directors to take independent professional advice at the expense of the entity	About Us/Board of Directors page of the Bioniche.com website for the individual Charters	Yes
	The entity should make a statement as to the mix of skills and diversity for which the Board of Directors is looking to achieve in membership of the Board	Corporate Governance section of the 2013 Annual Report	Yes
	The entity should disclose the period of office held by each Director in office at the date of the Annual Report	Board of Directors section of the Corporate Governance section of the 2013 Annual Report	Yes
	The entity should disclose the names of members of the Nomination Committee and their attendance at meetings of the Committee	Corporate Governance and Nominating Committee section and the Attendance Chart of the Corporate Governance section of the 2013 Annual Report and the Attendance Record section of the 2013 Management Information Circular located at SEDAR.com or ASX.com.au	Yes
	The entity should disclose whether a performance evaluation for the Board, its Committees and Directors has taken place in the reporting period and whether it was in accordance with the process disclosed under recommendation 2.5	Board Mandate section of the Corporate Governance section of the 2013 Annual Report	Yes
	The entity should disclose a description of the procedure for the selection and appointment of new Directors and the re-election of incumbent Directors	Nomination of Directors section and the Election of Directors section of the 2013 Management Information Circular located at SEDAR.com or ASX.com.au	Yes
	The entity should disclose the Charter of the Nomination Committee or a summary of the role, rights, responsibilities and membership requirements for that Committee	About Us/Board of Directors page of the Bioniche.com website	Yes

ADDITIONAL AUSTRALIAN SECURITIES EXCHANGE INFORMATION

Prepared as at September 9, 2013

BIONICHE LIFE SCIENCES INC.		Financial year ended June 30, 2013	
	Principle/Recommendation	**Location**	**Follows ASX Recommendation**
	The entity should disclose the Board's policy for the nomination and appointment of Directors	Nomination of Directors section and the Election of Directors section of the 2013 Management Information Circular located at SEDAR.com or ASX.com.au and About Us/Board of Directors page of the Bioniche.com website for the Corporate Governance and Nominating Committee Charter	Yes
PRINCIPLE 3 — PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING			
3.1	The entity should establish a code of conduct and disclose the code or a summary of the code.	About Us/Vision and Values page of the Bioniche.com website for the Code of Ethical Conduct and Business Practices	Yes
3.2	The entity should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the Board to assess annually both the objectives and progress in achieving them.	Diversity Policy information in the Australian Securities Exchange Information section of the 2013 Annual Report and at the Visions and Values page of the Bioniche.com website for the Diversity Policies	Yes
3.3	The entity should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	Diversity Policy information in Australian Securities Exchange Information section of the 2013 Annual Report	Yes
3.4	The entity should disclose in each annual report the proportion of women employees in the whole organization, women in senior executive positions and women on the Board.	Diversity Policy information in Australian Securities Exchange Information section of the 2013 Annual Report	Yes
3.5	The entity should make publically available, ideally by posting it to the Company's website in a clearly marked corporate governance section any applicable Code of Conduct or a summary	About Us/Vision and Values page of the Bioniche.com website for the Code of Ethical Conduct and Business Practices	Yes
	The entity should make publically available, ideally by posting it to the Company's website in a clearly marked corporate governance section the diversity policy or a summary of its main provisions	Diversity Policy information in Australian Securities Exchange Information section of the 2013 Annual Report and at the Visions and Values page of the Bioniche.com website for the Diversity Policies	Yes
PRINCIPLE 4 — SAFEGUARD INTEGRITY IN FINANCIAL REPORTING			
4.1	The Board should establish an Audit Committee.	Audit Committee section of the Corporate Governance section of the 2013 Annual Report	Yes
4.2	The Audit Committee should be structured so that it: • consists only of non-executive Directors • consists of a majority of independent Directors • is chaired by an Independent Chair, who is not Chair of the Board • has at least three members.	Audit Committee section of the Corporate Governance section of the 2013 Annual Report	Yes
4.3	The Audit Committee should have a formal charter.	About Us/Board of Directors page of the Bioniche.com website for the Audit Committee Charter	Yes
4.4	The entity should include in its annual report the names and qualifications of those appointed to its Audit Committee and their attendance at meetings of the Committee	Audit Committee section and the Board of Directors section and Board Compensation Attendance Chart of the Corporate Governance section of the 2013 Annual Report and the Attendance Record section of the 2013 Management Information Circular located at SEDAR.com or ASX.com.au	Yes
	The entity should include in its annual report the number of meetings of the Audit Committee	Board Compensation Attendance Chart of the Corporate Governance section of the 2013 Annual Report and the Attendance Record section of the 2013 Management Information Circular located at SEDAR.com or ASX.com.au	Yes

Prepared as at September 9, 2013

BIONICHE LIFE SCIENCES INC.		Financial year ended June 30, 2013	
	Principle/Recommendation	**Location**	**Follows ASX Recommendation**
	The entity should include in its annual report information on procedures for the selection and appointment of the external auditor, and for the rotation of external audit engagement partners	Management Report of the Financial Statements section of the 2013 Annual Report	Yes
PRINCIPLE 5 — MAKE TIMELY AND BALANCED DISCLOSURE			
5.1	The entity should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at senior executive level for that compliance and disclosed those policies or a summary of those policies.	Investors page of the Bioniche.com website for the Disclosure and Restricted Trading Policy.	No
5.2	The entity should provide the policy or summary of the policies designed to guide compliance with the Listing Rule disclosure requirements should be made publicly available, ideally by posting them to the Company's website in a clearly marked corporate governance section.	Investors page of the Bioniche.com website for the Disclosure and Restricted Trading Policy.	Yes
PRINCIPLE 6 — RESPECT THE RIGHTS OF SHAREHOLDERS			
6.1	The entity should design communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclosed the policy or a summary of the policy.	Investors page of the Bioniche.com website for the Disclosure and Restricted Trading Policy.	Yes
6.2	The entity should describe how it will communicate with its shareholders publicly, ideally by posting the information on the Company's website in a clearly marked corporate governance section.	Investors page of the Bioniche.com website for the Disclosure and Restricted Trading Policy	Yes
PRINCIPLE 7 — RECOGNISE AND MANAGE RISK			
7.1	The entity should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Risks and Uncertainties section of the MD&A of the 2013 Annual Report	Yes
7.2	The Board should require management to design and implement the risk management and internal control system to manage the entity's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.	Effectiveness of Disclosure Controls section of the MD&A of the 2013 Annual Report	Yes
7.3	The Board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Effectiveness of Disclosure Controls section of the MD&A of the 2013 Annual Report	Yes
PRINCIPLE 8 — REMUNERATE FAIRLY AND RESPONSIBLY			
8.1	The Board should establish a remuneration committee.	Compensation Committee section of the Board of Directors Section of the Governance Section of the 2013 Annual Report	Yes
8.2	The remuneration committee should be structured so that it: • consists of a majority of independent Directors • is chaired by an independent Chair • has at least three members.	Compensation Committee section of the Board of Directors Section of the Governance Section of the 2013 Annual Report	Yes

ADDITIONAL AUSTRALIAN SECURITIES EXCHANGE INFORMATION

Prepared as at September 9, 2013

BIONICHE LIFE SCIENCES INC.		Financial year ended June 30, 2013	
Principle/Recommendation		Location	Follows ASX Recommendation
8.3	The entity should clearly distinguish the structure of non-executive Directors' remuneration from that of executive Directors and senior executives.	Board Compensation section of the Board of Directors Section of the Governance Section of the 2013Annual Report and the Compensation Discussion and Analysis section of the 2013 Management Information Circular located at SEDAR.com or ASX.com.au	Yes
8.4	The entity should include in its annual report the names of the members of the Remuneration Committee and their attendance at meetings of the Committee	Compensation Committee section of the Board of Directors section of the Governance Section of the 2013 Annual Report and the Attendance Record section of the 2013 Management Information Circular located at SEDAR.com or ASX.com.au	Yes
	The entity should include in its annual report the existence and terms of any schemes for retirement benefits, other than superannuation, for non-executive Directors	Board Compensation section of the Board of Directors Section of the Governance Section of the 2013 Annual Report	Yes
	The entity should disclose its charter of the Remuneration Committee	About Us/Board of Directors page of the Bioniche.com website for the Compensation Committee Charter	Yes
	The entity should disclose a summary of the Company's policy prohibiting entering into transactions in associated products which limit the economic risk of participating in unvested entitlements under any equity-based remuneration schemes	The Investors page of the Bioniche.com website for the Disclosure and Restricted Trading Policy.	Yes

Additional information regarding the Company's policies and procedures can be found on the Company's Website online at Bioniche.com, in the Company's Fiscal 2013 Annual Information Form, Fiscal 2013 Management Information Circular, Fiscal 2013 Financial Statements and Fiscal 2013 Management Discussion and Analysis which all can be found on SEDAR online at SEDAR.com as well as through the ASX online at asx.com.au/.

	ASX Corporate Governance Principles and Recommendations
Principle 5	**Make timely and balanced disclosure**
The entity has established written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at senior executive level for that compliance and disclosed those policies or a summary of those policies.	The Company has a Disclosure and Restricted Trading Policy which is in compliance with the ASX Listing Rules with the exception of one section of the Policy which is inconsistent with the Listing Rule. The Policy is currently under review and the Company is evaluating potential revisions to the Policy.
Principle 8	**Remunerate fairly and responsibly**
Recommendation 8.3 recommends that Companies should clearly distinguish the structure of non-executive Directors' remuneration from that of executive directors and senior executives	Stanley Alkemade, Albert Beraldo, Margaret Cunningham, James Johnson, James Rae and Lyle Vanclief have each been issued Options during Fiscal 2013. The Board of Directors considers that the issuance of Options to the abovementioned non-executive Directors is appropriate and is unlikely to adversely affect their independence. The issue of Options enables the Company to provide adequate remuneration to attract and retain experienced Directors, such as the abovementioned non-executive Directors, without drawing on additional cash reserves of the Company. Information regarding the value of the Options issued to each of the abovementioned non-executive Directors during Fiscal 2013 is set out in the Company's Fiscal 2013 Management Information Circular.

Prepared as at September 9, 2013

Diversity Policy

For the financial year ended June 30, 2011 the Company established a Diversity Policy that applies within Australia in accordance with Recommendation 3.2 of the ASX Corporate Governance Principles and Recommendations 2nd Edition. The Company also developed a general Corporate Diversity Policy that has been implemented across the business worldwide.

In addition to the Australian Diversity Policy, and the general Corporate Diversity Policy the Company has Human Rights Policies in both Canada and the United States. The Company has facilities in both Armidale and Sydney Australia, both Pullman, Washington and Athens, Georgia, USA and both Point-Claire, Quebec and Belleville, Ontario, Canada.

The Company is committed to diversity and equal opportunity in the workplace and this commitment is reflected in its Diversity Policies. The Policies include requirements for the Board of Directors to establish measurable objectives for achieving gender diversity and for the Board to assess those objectives annually and their progress in achieving those objectives.

The Board has set an initial target of 35% female representation on the Board by calendar 2015.

The Board will continue to report on these matters in its annual report.

The Diversity Policies also provide that the Company aims to ensure that its workforce, including full-time, part-time, casual or temporary, contractors and consultants and Board is made up of individuals with diverse skills, values, backgrounds and experience to the benefit of the Company. The Company is committed to: equality of opportunity throughout the organization; recruitment and retention of the best candidates for positions; and treatment of individuals with respect.

Targets for Diversity Policy

1. To achieve an initial target of 35% female representation on the Board of Directors by calendar 2015.

   This objective will be evaluated as part of the Board of Directors annual self-evaluation and strategic planning sessions.

Gender Diversity

As of September 9, 2013, of the 202 permanent and contract employees of the Company worldwide, 122 or 60.4% are women. The senior executive is made up of 11 members, 5 or 45.5% of which are women. Currently there are 9 members on the Company's Board of Directors, 1 of which is a woman. Information regarding the Company's senior management team and Board of Directors can be found in the Fiscal 2013 Annual Report, Fiscal 2013 Annual Information Form and Fiscal 2013 Management Information Circular.

CONTACT INFORMATION

CORPORATE HEADQUARTERS:

231 Dundas Street East
P.O. Box 1570
Belleville, Ontario, Canada
K8N 5J2
Telephone: (613) 966-8058;
Toll-free: 1-800-265-5464
Fax: (613) 966-4177

AUSTRALIAN REGISTERED OFFICE:

c/o IAC Robertson & Co.
Chartered Accountants
54 Beecroft Road
Epping, NSW, Australia 2121

Postal Address: P.O. Box 881
Epping, NSW Australia 1710
Telephone: 61 2 9868 8500
Fax: 61 2 9868 8599

STOCK LISTING:

Toronto Stock Exchange (TSX) and
Australian Securities Exchange (ASX)
Symbol: BNC

COMPANY SECRETARY:

Mairi Phillips
Belleville, Ontario, Canada

LEGAL COUNSEL:

Norton Rose Fulbright Canada LLP
Toronto, Ontario, Canada

AUDITORS:

Ernst & Young LLP
Montréal, Québec, Canada

TRANSFER AGENTS:

CIBC Mellon Trust Company
c/o Canadian Stock Transfer Company Inc.
P.O. Box 700, Station B
Montreal, QC, H3B 3K3
Tel: 1 (800) 387-0825 / (416) 682-3860
Fax: 1 (888) 249-6189
E-mail: inquiries@canstockta.com
Website: www.canstockta.com

Link Market Services
Locked Bag A14
Sydney South NSW 1235
Telephone: 02 8280 7111
Facsimile: 02 9287 0303
Email: registrars@linkmarketservices.com.au

SHAREHOLDER INQUIRIES:

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

GENERAL & INVESTOR INQUIRIES:

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

Bioniche Life Sciences Inc.
P.O. Box 1570
Belleville, Ontario, Canada
K8N 5J2

Tel: (613) 966-8058 ext. 1250;
from Australia: 0011 1 613-966-8058 ext. 1250
Fax: (613) 966-4177;
from Australia: 0011 1 613-391-2097
Jennifer.Shea@Bioniche.com

www.Bioniche.com

BIONICHE
LIFE SCIENCES INC.

P.O. Box 1570
Belleville, Ontario
Canada, K8N 5J2

Tel.: 613 966-8058
Fax: 613 966-4177