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Welcome to our first issue of the BioFinance Newsletter.

As Executive Director of BioFinance Canada, I am delighted to report that the 2006 BioFinance conference, held in Toronto, was considered another great success. This year's meeting attracted more than 700 delegates from a diverse group of organizations, including large publicly traded and smaller listed firms, as well as both early-stage and established private companies. I was particularly impressed with the number of high quality CEO and senior executive presentations, representing 106 life sciences companies in Canada, the US, and Europe. These companies are currently developing a broad range of cutting-edge medicines, devices, diagnostics, medical technologies, research tools and health-care systems.

It is with great pleasure that I present to you these highlights of the inaugural panel session of the 2006 meeting, entitled "Breakfast with Dealmakers - Getting Products to Market". Looking back over the past six years, the Canadian biotech community has had a paucity of commercial products, but we are now entering a very exciting period in which several products have advanced to late-stage (Phase II/III) clinical testing or have received market approval. This specialty panel, chaired primarily by Cameron Groome, assembled three excellent role models and proponents of industry success - Don Corcoran, Greg Hines, and Tom Little; each of their companies boasts commercial products and revenues. The focus of this CEO forum was to identify key challenges, and to discuss potential solutions, in advancing products from initial funding towards successful commercial launch, including financing, product development, intellectual property, personnel, and marketing issues. I trust that the learnings and views summarized herein will have valuable application for other senior executives facing similar challenges in their unique corporate environment within the broader context of the Canadian biotech industry.

Michael Stinson

Session Details

Title ~ **Breakfast with Dealmakers - Getting Products to Market**

Date ~ BioFinance 2006 conference - Wednesday, May 3rd, 2006, 8:00 am – 9:00 pm

Panelists

Moderators ~ Cameron Groome, Blackmont Capital Inc. & Michael Stinson, BioFinance Canada

with ~ Don Corcoran, Methylgene Inc.; Greg Hines Tm Bioscience Corp.; Tom Little, Visual Sonics Inc.

Plenary Session Overview

The Big Decision

Moderator: *Gentlemen, what prompted you to join your company and can you describe the status of its business and lead products at that time?*

Mr. Corcoran: MethylGene was initially spun out from Hybridon, Inc., a publicly-traded US-based drug R&D company, for which I was on the Hybridon side of the transaction. As VC investors approached us to start the company, I played the lead role in taking its business plan forward to facilitate growth. Methylation chemistry was recognized as being critical to the Company's science. We believed that Canada, and specifically Montreal, would be a great place to conduct the research. Both of our lead products target oncology applications - we consider them to be home grown, although they have been spun out of our original technology. We are currently several years from the market.

Mr. Hines: It is actually serendipity that has brought me here. In my previous roles, including at MDS, I was an entrepreneur with a strong interest in research. Tm Bioscience had some interesting DNA technologies, but had no

business plan, so we pulled together a team to write it. We made a proposal to MDS Capital Corp., who then put me in as the CEO, and we immediately began to work on proof of principle, then productization. At present, Tm's diagnostic tests focus on three target markets, to meet FDA specifications, including human genetics, personalized medicine, and infectious disease.

Mr. Little: I joined VisualSonics in mid-2002. I believed there was a strong value proposition, and that we would have a great story. I had been a founder at a previous company with ultrasound expertise in medical imaging, and so I understood a little about imaging systems for small animals. At VisualSonics, we've recently launched enhanced, ancillary imaging equipment that builds on the Company's previous molecular imaging capabilities, and sales have grown substantially. So we've done well, especially over the past 3 years that we've had commercial products.

Moderator: *And once you'd signed up, what were the biggest surprise(s)?*

Mr. Corcoran: My biggest surprise was that I was told there would be lab space, but in reality, it was very small. There was also a certain lack of respect from the US investment community, although I had been used to this. We had good science and management, and we knew we had a long road to commercialization, but I didn't expect the degree of bias. In general, we need to focus more on overcoming such perceptions. ProQuest, as one of our lead investment firms, is definitely helping us with these issues.

Mr. Hines: Once I joined Tm, the first main goal was to conduct proof of principle studies within the first 6 months. We were working with the Ontario Cancer Institute, building DNA biochips, but our proof of principle studies were failing at the 3 month mark. We had only another 3 months to make it work. Essentially, we had a mathematics problem, rather than a chemistry or a genetic problem. So we went to the Fields Institute, which we're extremely fortunate to have here in Toronto, since it's one of the most prestigious math institutes in the world. We started to work with them on our DNA biochip platform, using advanced mathematical techniques, and we were able to achieve a perfect solution, which we've applied, and we're using today.

Mr. Little: I'm not sure this was a big surprise, but when we moved from Sunnybrook, we discovered that our product commercialization was in jeopardy - not the scientific application but the commercialization. There was little staff, no money, and an incomplete management team. I'm very happy that our stakeholders were motivated to make it work, so we've made great progress in moving from a research lab along the path to full global commercialization. But going back to the time of the SARS scare in early 2003, we hadn't signed the lease to move into our space or to move our animal colony. No one was allowed into Sunnybrook, but we needed to demonstrate a critical piece of our imaging work. We were trying to expand into the space next to us, where sub-tenant lease agreements were in place. Under the circumstances, we took the risk of going ahead to build the required demonstration facility outside of our space, and we ended up blowing the circuit right before a crucial demo was to begin, so we needed to rewire through a space we didn't own. I ended up giving the VP of Manufacturing money from my own wallet if he could get the electrician in and out of there within 20 minutes!

Financing

Moderator: *Each of your companies has been VC backed, but this stands in contrast to many firms that pursue angel financing and then public venture capital. What are your thoughts about the financing processes you've undertaken? Would you take the same route again?*

Mr. Corcoran: Our first round was Quebec/Montreal based. We did 3 private rounds, with no angel investors. Our second goal was to leverage from the first round(s), to attract other VCs across Canada. Our third goal was then a private placement with US investors, working towards an IPO in 2000. I pushed for the IPO, but our VCs advised us to hold back, offering us their support. Well, when we eventually did go public in June 2004, we missed the peak of the Toronto index by about 2 months, and our price actually dropped before closing the deal. Another quarter earlier would have given us a higher price, with more capital raised.

Mr. Hines: At Tm, we've done 8 financings in 5 years. I would rather have done only 2, not 8. In Canada, the biotech industry is more of an anomaly - it is not well understood like the oil and gas industry. Also, we're a DNA diagnostics company, the only one in Canada. We are not a classic biotech, so investors don't understand the space very well, and it's difficult to gain their confidence. So we move forward a year at a time. It's a tragedy that we can't seem to move the share price because we have a dwindling cash base, so it's a vicious circle. In terms of doing things differently, I would involve US investors earlier in the fund raising process. The US has more defined niche players, with dedicated analysts who know the relevant customers and competition in the genetic market. In

contrast, Canada is much more a generalist market, which makes it that much more difficult. I would also like to raise more than one year of cash at a time. The early stage of commercialization we are in is a difficult period. We have revenues but we are not profitable. The investor attitude becomes "show me the money". This represents a very different emphasis for a biotech start up, but perhaps there are some lessons here.

Mr. Little: If I could go back and change something in financing, I would have spent more time in the US building new contacts, and obtaining positive feedback, even in the periods when we actually did not need US investment. If we had made these contacts earlier, this may have helped us to get more attention in subsequent rounds and to diversify from our all-Canadian shareholder base.

Product Development & Intellectual Property

Moderator: *Your firms have all developed different, but very proprietary products, therapeutics, diagnostics and devices. What was the status of these products when you joined and what were your first priorities in moving them towards the market? Also, can you speak to appropriate IP protection?*

Mr. Corcoran: As I've mentioned, MethylGene was initially established by Hybridon, and then we diversified our technology base, so it became home grown. In creating our IP portfolio, our philosophy was to try to cover 70-80% of the pharma market, including Australia, for ourselves and potential partners. We have 2 patents groups, who are very adept at dealing with chemistry and biology litigation, so we had to find the right balance between them. The last step has been to bring in a patent agent from Ogilvy - this has been a great asset in ensuring that our discovery in the lab is done properly to withstand potential litigation. With our IP in place, we can undergo the due diligence process to attract partners across a large geographical area. I firmly believe that you need to show IP strength at the beginning of the partnership process.

Mr. Hines: Yes, IP is a fundamental issue. In the genetics/genomics area, there are roughly 10,000 patents filed annually. Since the publication date is 18 months out, you often have to make decisions without knowing what the competition is doing. It's a risky time, with significant challenges. We've actually engaged 3 IP firms; two in the US and one in Canada. Larger companies, such as Abbott or Roche, will file a suit just to give you grief, and this is so time-consuming and draining on management resources, i.e. you need to engage patent attorneys just to fend them off. Of course, if you do have a patent suit filed against you, it's very difficult for smaller companies to complete due diligence evaluation to raise financing, and the larger companies know this. We've had our share of issues, but we've managed to come through them - Hallelujah!

Mr. Little: We use four main pillars in product development, including reliability, image quality, functionality (which our users are screaming for), and cost reduction. Overall, we try to strike the right balance among these objectives in terms of our engineering efforts, i.e. we initially had to focus on reliability and functionality while simultaneously reducing cost. With regard to IP, the ultrasound space is very crowded, but we offer competitive advantages in terms of small animal imaging, in contrast to traditional ultrasound for humans. I agree that you need world class IP counsel, particularly to stand up to US due diligence. We've set our strategy early, tying it to the development process, and this has put us in a reasonable position.

Moderator: *Each of your companies has created innovative products, in the areas of antibiotics, diagnostics and new modalities for imaging. Where did you turn for guidance in deciding how to direct your product development efforts? Do you rely on advisors, market intelligence or other sources and why?*

Mr. Corcoran: I typically rely on my Chief Scientific Officer, Jeffrey Besterman, and he comes up with many of the golden nuggets. We don't have a standard framework or process per se, but we do tend to pull together ad hoc panels of clinical advisors (including ex-FDA staff, CROs and consultants) to seek clinical expertise in specific areas. We also conduct strategy sessions 2-3 days per year to plan for the coming 5 year horizon.

Mr. Hines: Tm is essentially a tool company, with a medical device. Our strategy is to pursue product lines that customers are already paying for, and to offer "me too" genetic tests on a better 'mouse trap'. This strategy has down side price pressure. This type of technology displacement is a different biotech business model, in which we aim to capture a customer base we refer to as our "commercial footprint". We also use these customers to generate data to facilitate early FDA approval. With regard to advisory boards, we have a member of the American College of Medical Genetics on our SAB - and it should be noted that the FDA typically seeks ACMG endorsement before approving technology candidates. We've also got the President of the Pan American Society for Clinical Virology on our SAB, and we've built strong links to both organizations through sponsorship agreements.

Mr. Little: Much of our guidance comes from customers. When the customer speaks, we listen. We also have to know when not to listen! Our user community tends to pose large biological questions, and this helps us to apply the answers to our systems and assist a large number of potential users. However, if a customer comments from their own individual perspective (on something that affects only their lab), you need to be cautious. This is not to be dismissive - you can also go back and ask them if they're speaking from a broad user perspective, and what might be useful to other customers. So yes, you need to take guidance from customers, but with appropriate parsing.

Personnel & Staffing

Moderator: *We often hear that Canadian firms have a challenge finding experienced personnel, for example in Clinical and Regulatory Affairs. What have your experiences been and how have you identified and recruited the "crackerjack" folks you needed to grow and succeed?*

Mr. Corcoran: In Canada, our strengths are in the areas of chemistry and science. I think it's important to supplement the scientific base with US management experience - I represent an example of this, in the case of MethylGene. With regard to attracting talent to Canada, I think that it's tougher for Quebec than the rest of Canada, since you've got potential issues with integrating kids into the culture and the language. My belief is that you have to supplement your senior executive team with those who have already been in a leadership position. Be aware, however, that some US candidates simply won't come to Canada, particularly due to tax disadvantages.

Mr. Hines: Canada offers great strength in the areas of medical and regulatory affairs, especially since the large, established pharma companies employ over 22,000 people in Canada. From the scientific perspective, the University of Toronto provides a great pool - like a flood - of highly trained folks in genetics/genomics. We've also got the benefit of community colleges like the Michener Institute which generate qualified technicians, and we have lots of great co-op programs. However, recruiting senior executives in business development, sales and marketing is more of a challenge, although recruiting from the US is not as difficult as it used to be in the past.

Mr. Little: I think it's hard to find good people anywhere, period - it's not a border issue. At VisualSonics, we don't have a great need for clinical/medical/regulatory expertise since we've got an instrument that does not have any large regulatory requirements. However, we do use consultants to guide our engineering group. I think that hiring consultants is a lower risk method to evaluate talent, and if you fall in love with them, you can offer them a more permanent position. This is much better than having a recruiter drop the bomb of a new candidate on you, and then, after moving them here, it turns out they don't fit and you have to airlift them back! Overall, I think you have to look everywhere, and think creatively, possibly using consultants to enhance the knowledge transfer.

Product Launch & Marketing

Moderator: *Let's shift now to product launch and marketing. While many companies are in the pre-market phase, this panel is much closer to the marketing alliances and sales - each of your companies is now generating revenues. How have you managed the transition from a resource environment to a customer driven environment?*

Mr. Corcoran: We see our customers as partners. And just like in the transition from dating to marriage, you have to ask yourself - do you want to keep going? For senior executives involved in marketing collaborations, a key goal might be to manage the relationship, especially in terms of responsiveness. For example, one of our Japanese partners is very demanding since they only have one point person to manage our delivery - this is quite different from the North American approach.

Mr. Hines: Our toughest transition was transitioning from the initial research based laboratory full of entrepreneurial research scientists to a product oriented organization. We all had to bite our tongues and hold our patience to avoid personal conflict in the early days. As we added more people, we remained focused around the core technology, which was the heart and soul of the company. Our research folks knew that we had built something that was the best in the world. We've now got almost 100 people on board, and we all believe our genetics are world class. So it's easy to build around such strong belief and motivation to become a commercial company.

Mr. Little: I'm envious of companies with a long runway to revenues. On the instrument side, we're expected to achieve revenues very early on. Our current challenge is to build a direct sales force in the US and EU.

Panelist Bios

Cameron Groome, Blackmont Capital

Cameron Groome is Director of Investment Banking and head of the biotechnology and health services investment banking team. Cameron is responsible for ensuring the success of its many new issues and advisory mandates. He is well known in the Canadian biotechnology sector, with corporations seeking him out for his financial and capital markets expertise, up-to-date knowledge of the industry, understanding of scientific and development issues and vision for the future of biotechnology in Canada. Before joining investment banking, institutional investors consistently ranked him as a top biotechnology and health services equity research analyst at NBF from 1993 to late 2000 and previously with other firms.

[In June 2006, Mr. Groome accepted an appointment with Bioniche Life Sciences Inc. as Executive Vice-President, Corporate & Strategic Development.]

Donald F. Corcoran, MethylGene Inc.

Mr. Corcoran has been President and Chief Executive Officer of MethylGene since the Company's inception. Mr. Corcoran has 22 years of experience in the biotechnology, pharmaceutical and health care industries. His background includes functional and staff responsibilities in the areas of finance, accounting, marketing, human resources, business development and acquisitions/strategic planning. He was instrumental in the creation of MethylGene Inc. during his tenure as Vice President, Business Development at Hybridon, Inc., a publicly-traded Cambridge, Massachusetts based drug research and development company. During his time at Hybridon, Inc., Mr. Corcoran was responsible for establishing a number of corporate alliances with multinational health care companies. Prior to that time, he served as Business Planning Manager at Schering-Plough Corporation and served in a variety of managerial and staff positions at Eli Lilly and Company from 1982 to 1991. Mr. Corcoran is also a director of Tranzyme Inc., a private United States biotechnology company located in Research Triangle Park, North Carolina. Mr. Corcoran received a B.A. in Economics and Biology from Union College, New York and an MBA from Cornell University's Graduate School of Management.

Gregory C. Hines, Tm Bioscience Corp.

Mr. Hines was appointed President and Chief Executive Officer of Tm Bioscience on March 31, 2000. Prior to this appointment, Mr. Hines served as President of Leo Pharma Inc., a research-based pharmaceutical company which Mr. Hines founded in Canada in 1981. In this capacity he brought 8 new medicines through clinical development, regulatory approval and commercialization. He also served on the Board of Directors of Rx&D, the association of Canada's research based pharmaceutical manufacturers from 1993 to 1999. Mr. Hines was the Chairman of the Rx&D Board in 1997/98. Mr. Hines currently serves on the Board of Directors of Toronto Biotechnology Initiative (TBI) and Canada's Medical Device Industry Association (MEDEC).

Tom Little, VisualSonics Inc.

Tom Little is President and CEO of VisualSonics responsible for setting the strategic direction of the company and managing its successful short and long-term operations. Tom joined VisualSonics in mid-2002. Tom Little is a business leader with extensive experience in financing, building management teams, developing and commercializing instrumentation and driving revenue growth on a global basis. Mr. Little joined VisualSonics as President and CEO in July 2002. Focusing the company on the life sciences market, he led the commercialization of the VisualSonics' in vivo imaging system, drove global sales growth and maintained a high level of customer satisfaction. Before joining VisualSonics, from 1995 to 1999, Mr. Little was a founder and Executive Vice President of Dicom Information Technologies, a technology company for medical imaging device manufacturers worldwide. He hired and motivated a strong and effective team and led the company from startup to sale. From 1990 to 1999, he was Vice President at OMD, a distributor of medical devices in Canada. From 1986 to 1990, Mr. Little was an Investment Manager and then Partner of VenGrowth Capital Funds responsible for identifying and making equity investments in growth companies.

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