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Introduction

As a follow-up to the first issue of the BioFinance Newsletter (September 2006, Volume 1), in which we shared with you an overview of the inaugural panel session of this year's BioFinance meeting, it is with great pleasure that I now present to you the highlights of the subsequent plenary panel, entitled "Luncheon and View From The Street". 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.

I am delighted to report that the 2006 BioFinance conference, held in Toronto, was considered a 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.

I would also like to thank Nora Cutcliffe, PhD, BioPharma Consultant, for her expertise in preparing this plenary session overview on behalf of BioFinance.

Michael Stinson, Executive Director, BioFinance Canada

Panelists

Overview: Steve Winokur, Canaccord Adams
Moderator: Andrew Baum, SemBioSys Genetics Inc.

Panelists:

Karl Keegan, Canaccord Adams, UK
Michael Denny, Westwind Partners Inc.
David Hirsch, Pequot Ventures
Peter Day, Leerink Swann & Company

Plenary Session Overview

Steve Winokur opened the session, with an optimistic industry overview, stating that the Canadian Life Sciences sector has enjoyed solid recent returns, with strong performance relative to other indices in 2006. He contends that all sectors are cyclical; for example, in 1999/2000, the life science industry raised more capital than the entire mining sector. In contrast, the price of gold has since tripled and has been viewed as a lucrative investment, whereas interest and investment in the life sciences has experienced a relative decline during the same period. However, based on recent trends and potential future earnings, Mr. Winokur anticipates that the best is still to come for the life sciences sector.

Characterizing Today's Financial Markets

Mr. Baum: *I often tell my colleagues that managing a public company is like having kids; lots of advice is required, life is never the same afterwards, and many problems arise along the way. So we shall consult our panel of Dr. Spocks! I want to begin by asking if we can perform better as public companies, and how would each of you characterize the financial markets today compared to the past few years?*

Mr. Day: The current status is that we're involved in the longest financing window that has ever occurred. IPOs have been strong for nearly 3 years, since August 2003. I believe there are two key reasons for this longer window. First, the market did not achieve the same degree of euphoria as it did for the genomics bubble. Secondly, investors are more discerning than ever - after being burned with IPOs in 2000 - and they are more cautiously holding their pricing power. Since 2004, IPO pricing has been, on average, 25% below the initial rate proposed by the company. As a result, returns have come back, and the power has been shifted back to investors.

Mr. Hirsch: I agree with Peter Day. Biotech share prices are now at an all time high, from an indices perspective. Regarding the IPO markets, there are some history lessons here - in 2000, there were 44 IPOs, then 12 or so per year over next 3 years, then 14 in 2005, and a few more in 2004. Companies definitely need a good profile and data, or else they pay for it in their pricing. Note that since January 2005, 12 of 19 US companies are now trading below their IPO price, and IPO financings have been in the range of \$200-250 M (for 4 IPOs) in the past 18 months. I don't want to project doom and gloom, but investors are becoming much more critical with respect to their investing. I think we should take a more sanguine view, and that companies should look at IPOs in the context of other strategic options. You may be better off to pursue an M&A transaction; last year alone we saw roughly \$6B in large M&A transactions.

Mr. Denny: I tend to have the mind of an art critic - I know if and why I like it when I see it. So my view of the capital markets is that it may be sunny today, but who knows for tomorrow? Yes, the window is currently open. Westwind is currently engaged with companies targeting \$25-30M IPOs for August or September, and each of these companies has salable products, so they do qualify, and I expect the markets will embrace them. In general, if it's a good market, and investors see momentum, they will buy. However, while the overall market appears very attractive, the current market for biotech is brutal, since investors presently love oil, gas, and income trusts. If we think about the average institution having only 1% invested in biotech, and if we can work towards increasing this to just 3%, this would have a huge impact for all of us.

Mr. Keegan: I think we've got a nice atmosphere here, and I'd like to thank the organizers. I even wore my Canadian tie! But let's look at the global context - we've got a distinct positive upswing, with Q1 being particularly strong globally. Will this continue? Regarding the window of financial opportunity, there are 2 global drivers. First, there is not a great focus on deliverables, but the downside, however, is that we've gone through some barren years, and there is a large pool of individuals who have been burned, and therefore don't want to invest. Second, there is a drive for M&A on a global basis, since pharma is aggressively looking for assets, now at earlier stages, and with higher multiples. So to answer Andrew's question, nothing is a real "Yahoo" at the moment. I think the window is sensibly open and will probably stay open until the end of this year.

Mr. Baum: *So we are seeing consistent yet restrained optimism, which is not very common. What if we now look outside Canada, to contrast US with Canadian institutions in looking at Canadian biotech stock?*

Mr. Day: I don't know Canada very well, so it's difficult to draw a contrast. I can speak for the US, however, where one key aspect is the regulation called full disclosure (FD), which really matters in biotech. In the old days, pre-2000 and pre-FD, biotech companies typically had Wall St. analysts, who acted as the voice to investors. These analysts could "open the kimono" with certain information, e.g. regarding mechanism of action (MOA). In contrast, since FD has been implemented, you can no longer have such a conversation with an analyst; communication must be consistent with all investors. There is also great scrutiny regarding press releases. In addition, investors have a better understanding of disease states, competing products, and MOA. We're now seeing an increase in the number of biotech analysts with PhDs and MDs, who also know the capital markets. Great scrutiny is applied, so the bar has definitely been elevated, and this is a major challenge. To get some one excited, you now need to go through a guy like David Hirsch, some one very much in the know.

Practical Advice in Attracting Investors

Mr. Baum: *What practical advice can you offer with respect to convincing investors that they want to invest?*

Mr. Hirsch: There are similar requirements for VC and IPO financing, in that you need to have a tight story and business plan. The company needs to have products, with strong data from later stage development, and a solid management plan. So the basic mechanisms of the well put-together company include a good compound with significant market opportunity, a respected management team and an attractive story.

Mr. Keegan: From the sell-side perspective, the management team needs to realize that THEY sell the story. They have only 5-10 minutes to sell it, yet unfortunately some teams are not prepared to get the bait on the hook. For me personally, I'm not interested in the science as much as the story. If the story is good, I will dig into the science. You need an excellent presentation, and to hit all the key points within the first 4 slides. Get advice from the very best PR and legal counsel you can afford. In addition, since more companies exist that analysts can adequately cover, you should go with the analyst who is respected on the street, since it's the analyst's role to support your story in the long run. I would also advise that you need to view the financing

event as a more of a point on a map.

Mr. Winokur: If I may interject, based on my experience in closing the SemBioSys IPO, I have a question for Michael Denny - that is, what do you look for as a banker in terms of requirements for the management team? And what type of company & management team can you take to the public markets?

Mr. Denny: You need data, of course, and a big indication/market - that's obvious. But what's less obvious is that bad execution beats good science every time. Although science has the potential to be revolutionary, the corporate image can interfere with this. Personally, I get behind a company if I respect and trust the management team. I meet them long before the IPO; I get on a plane and I go and see them. The quality of the management team, and my trust in them, are key. Many times I've known the management team for 5 years. This also works by association, since if I do a good work for them, they will do so for me as a client.

Mr. Day: To add a few points, I'd like to suggest 5 things your company and management team needs to have in place. First, you need a CEO who has done it before, and who has made money in the past. Second, you need reputable investors who validate the company. Third, you must address unmet medical needs. This can be less exciting for me, but it's all about how you approach that market, since even a small indication can have value. Fourth, you should typically aim for close to Phase II proof of concept (although there are some exceptions). And lastly, as a softer point, you need to have a "lack of over-confidence" in your product candidates. The process is never A, B, C - there are always bumps in the road! So you need to plan for less than perfection. Trust is paramount in this, and you should consider how will your team perform in front of the teams we know.

Mr. Baum: *In terms of avoiding mistakes, what should you not do, if you want to persuade investors?*

Mr. Hirsch: My comment relates to Michael's point regarding management teams. As investors, we're not present at the company every day - maybe only quarterly at best. You need a solid management team that does not over-hype, thinking it will be the next big thing, with a \$500 IPO that will break all records. You want to have a thoughtful, methodical team that can deal with upset and does not have irrational expectations. I emphasize that the key in all this is to not over-hype: a good product should carry the day. There also needs to be good fit with regard to personality.

NASDAQ and AIM Listings

Mr. Baum: *Karl Keegan has mentioned that we need to take a global view, so I'd like to discuss - particularly for those companies looking to list on the UK Alternative Investment Market (AIM) - what pitfalls and opportunities exist for Canadian companies trying to access this market?*

Mr. Keegan: I should first note that AIM represents a happy medium, at least in terms of time zones. Regulation is really the key however, and AIM is perceived to have a "lighter touch", relative to the onerous US market. AIM has no central regulatory body, although there are concerns that heavier regulation will be required, especially in the context of the booming resource sector. Since 2000, many companies have tried to list on AIM - since it is perceived as supporting favourable multiples and valuations - but this view of the market is not always true. On the positive side, AIM gives access to a pool of sophisticated funds, particularly in the UK, and also offers a springboard to Switzerland. Regarding the performance of AIM IPOs, first quarter performance has been pretty good, and this has increased the appetite even further, with increased investment by those who specifically invest in AIM.

Mr. Baum: *How about US/NASDAQ listings? At what point do companies have to accept the cost of a US listing, and is it necessary to list in the US in order to raise capital?*

Mr. Day: Twenty-five of the largest funds in the world are in the US, so if you have the option to trade in the US, that bodes well for enhancing valuation. But how do you know when you're ready? It's a significant market event. A recent example is Labopharm of Quebec, which has been trading on the TSX. On May 3rd of this year, Labopharm closed a cross-border offering of over 12 Million shares, including the exercise of the full over-allotment option. This offering, valued at over \$Cdn 100 M, was made predominantly to US investors on the NASDAQ market. Success doesn't get any better than that. The share price traded up 10% during the roadshow, and has gone up another 10% since then. So this is good news all around. Why was this the case? The company's story was clear, understandable, with upcoming catalysts well laid out in terms of supporting future returns. This clarity led to a receptive audience, and the buy side guys can speak to the story. You

usually need to customize your company story, and to assist in “spoon feeding investors” on how they can generate returns.

Mr. Hirsch: Overall, there are 3 general financing options: IPO, another VC round, or M&A. VCs will tend to pressure you towards an IPO for their exit strategy. There is no right or wrong answer here (since each option has its own pros and cons), but my advice is to consider all three options before making any choice. It is also possible to switch along the path, so you always need to ask yourself: Which path are we on, and why?

Mr. Denny: I would like you to keep AIM at top-of-mind, even though it's only been on my mind in the past few months. Three attractive features are the following:

- 1) AIM is the largest single capital market in the world, larger than either New York or Boston.
- 2) It is the most sophisticated. There will be a manager somewhere who knows something about every niche market.
- 3) There are punters who love young, growing companies in a way that Canadians don't value them, except in the oil & gas industry.

My anecdote is that I was engaged with a Canadian biotech company that went to NY, seeking investment banks in what I'd call Tier 2. My client was told that bankers love him, but he's doing a TSX listing, since the company is too small for NASDAQ. The advice he received in the US was to co-list on AIM, in which case, the American investors would “drive into the deal”. I was blown away with this; I certainly didn't think this way until the last 6 months. In general, I have increasing numbers of clients with an interest in small cap, but the US regulatory burden is high. Therefore, I think we should all consider AIM. I also believe that Canaccord's AIM practice is phenomenal.

Mr. Keegan: Michael certainly gives a good ad for AIM, but please do not think AIM is a panacea since we're a bunch of punters! The corporate presentation has to be tip-top, with a credible story. You need to be ready to go public. Also consider doing another VC round, or M&A transaction. There is also a 4th option - death! I don't advocate that all survive. Note that the forest grows, then you have a fire, and only the healthy ones grow back. AIM is not easy, although life sciences companies are welcome. Deals are currently closing in the range of a few million dollars. You will still need regulatory support, even if AIM is “light” on regulation. Also, there are not as many analysts in the post IPO period. In general, when doing a financing deal, you might tend to focus on the bankers fee. However, it's important to remember that while the emblem of the car tells you about its image - like a Rolls Royce in the banker's world - the engine of the deal is in fact the analyst.

Mr. Baum: *I'm an American living in Canada, so I want to ask if you find it's more difficult for Canadian companies to raise funding in the US than for US companies?*

Mr. Hirsch: I'm not sure if this is true, but visibility is the issue, and that's harder for Canadian firms. I see about 20-30 firms annually, and very few of them are Canadian, but there are a lot of great things taking place in Canada. I should do a better job of coming here, and having Canadians going to the US. I can't compare hurdles or barriers like regulatory issues. But I can't imagine that these are real reasons not to invest in Canada.

Bios

Andrew Baum, SemBioSys Genetics Inc.

Andrew Baum has been President and Chief Executive Officer since August 1998. Prior to joining SemBioSys, Mr. Baum spent 16 years at Calgene Inc., an agricultural biotechnology firm where he started as Calgene's first employee and rose to the position of President of Calgene's Oils Division. Mr. Baum developed and implemented all aspects of Calgene's genetically engineered oils business, one of the first to focus on using genetic engineering to develop output traits. In 1997, Calgene was acquired for US\$240 million by Monsanto Company, a world leader in agricultural biotechnology, food ingredients and pharmaceuticals. Mr. Baum thereafter served as the Director of Business Development for the Sustainable Development Sector of Monsanto. In this capacity, Mr. Baum was responsible for identifying and addressing new business opportunities as well as ensuring a smooth transition of Calgene's plant oils business into Monsanto. Mr. Baum received his B.Sc. in Industrial Engineering and Operations Research from the University of California at Berkeley. Mr. Baum serves on the Executive Committee of the Board of the Washington based Biotechnology Industry Organization (BIO) which is the trade organization representing the U.S. biotechnology industry. In addition, Mr. Baum is Vice Chairman of BIO's Food and Agriculture Governing Body and chairs the working group of BIO on plant-made pharmaceuticals. Mr. Baum is also the Chairman of the Board of BioAlberta and a member of the Board of BIOTECANADA.

Steve Winokur, Canaccord Adams

Steve Winokur joined Canaccord Adams in May 2005 as part of the Life Sciences team. Prior, Steve spent eight years in the Life Sciences group at Orion Securities. Steve has participated in leading more than 65 financings raising almost \$1 billion for Canadian life sciences companies. He has also worked at the Toronto Hospital Research Institute, where he completed an MSc in cellular and molecular pathology. Prior to the completion of his degree, Steve worked for a North American media company supplying venture capital to the emerging markets of Central Europe. Steve holds an MBA in Finance from the University of Toronto.

Peter Day, Leerink Swann & Company

Peter Day joined the Corporate Finance Department of Leerink Swann & Company in December 2001. Mr. Day has worked in the financial industry for the past eight years, most recently as an associate in Mergers and Acquisitions at William Blair and Company in Chicago. Prior to this he served as Assistant Vice President at Aon Risk Services. Mr. Day received a B.A. in Economics and German at Denison University and an M.B.A. in Finance and Accounting at Northwestern's Kellogg Graduate School of Management.

Michael Denny, Westwind Partners Inc.

Michael Denny leads Westwind Partners healthcare and biotechnology investment banking practice. Based in Toronto, Michael is responsible for mergers and acquisitions, strategic advisory, IPOs, follow-on offerings and private placements on behalf of the firm's healthcare and biotechnology clients. Michael is widely acknowledged as one of the country's leaders in biotechnology investment banking. He has been financing biotechnology companies for over 10 years. In the last five years he has completed over 50 financings for over 30 companies. Michael is chair of the board of Ottawa-based BioteCanada, the country's national biotechnology industry organization. Raised in Toronto, Michael holds a bachelor's degree from York University and an MBA from the Ivey School of Business at the University of Western Ontario. Westwind Partners Inc. is a research and investment banking firm. The firm is privately held by a group of entrepreneurial partners who are experienced and have proven track records. The services that Westwind offers include insightful equity research on Canadian and U.S. companies, equity trading capability, and independent advice to corporations on M&A, financing and restructuring transactions.

David Hirsch, Pequot Ventures

David Hirsch joined Pequot Ventures in 2005 where he focuses on investments in healthcare. Previously, David was an Engagement Manager in the healthcare practice of McKinsey & Co. where he worked with the firm's pharmaceutical and biotechnology clients. At McKinsey, David's project responsibilities regarding client research and development focused on clinical development strategy, both on specific compounds as well as on the broad therapeutic area level. David also helped clients coordinate strategies regarding product licensing, acquisitions, and post-acquisition resource allocation. In addition, David regularly advised clients on commercial operations, including managed care strategy, sales force targeting, and individual product positioning. Prior to joining McKinsey, David was a research scientist in the laboratory of Dr. Harvey Lodish at the Whitehead Institute. Dr. Hirsch holds a Ph.D. from the Massachusetts Institute of Technology, an M.D. from Harvard Medical School, and a B.A. from Johns Hopkins University.

Karl Keegan, Canaccord Adams, UK

Karl Keegan joined Canaccord Capital in July 2003, from Banc of America Securities where he developed a European Life Sciences franchise. He has also served as an analyst with UBS Warburg and Dresdner Kleinwort Benson. Prior, Karl gained practical industry experience in both research and strategic product development at SmithKline Beecham Pharmaceuticals. He earned a degree in Pharmacology from University College, Dublin, followed by a MPhil and PhD in Biophysics from Cambridge University. Karl completed his postdoctoral training at Baylor College of Medicine, Texas.

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