ASPEN TECHNOLOGY INC /DE/
Form DEF 14A
July 11, 2003

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SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ý

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

ý Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Pursuant to §240.14a-12

Aspen Technology, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

ý No fee required

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11
(1) Title of each class of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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July 11, 2003

Dear Stockholders:

On June 2, 2003, we announced that we had entered into an agreement with Advent International Corporation, a leading global private equity firm, under which several Advent-managed investment partnerships would make a $100 million equity investment in AspenTech. We also announced that, as part of a restructuring of our balance sheet based on this capital infusion, we proposed to retire all of our outstanding Series B convertible preferred stock and to set aside $45 million to repay, at or prior to maturity, more than one-half of the outstanding principal amount of our 5 1/4% convertible subordinated debentures.

We have undertaken these financial transactions to strengthen our balance sheet and complement our operational improvements over the past two quarters. Over the last several quarters we have been committed to refining our product focus and aligning our costs with revenues by streamlining our organization. These operational steps have resulted in improved execution and financial performance, despite a challenging economic environment. In light of these accomplishments, we believe this is an opportune time to address our upcoming financial obligations, including $30 million that may become payable beginning in August 2003 to redeem a portion of our outstanding Series B preferred stock, an additional $30 million that may be payable beginning in February 2004 to redeem the balance of the Series B preferred stock, and more than $86 million that will be payable when our outstanding 5 1/4% convertible subordinated debentures mature in June 2005. By addressing these matters now, we are seeking to allay any concerns our customers, vendors and lenders may have regarding our financial position and to enable our stockholders to analyze our capitalization more clearly. In addition, by resolving these financial matters, our management team will be able to focus our full attention on further improving our operational performance.

Accordingly, I am pleased to invite you to attend a special meeting of stockholders on August 13, 2003 to consider several matters relating to the proposed financing. Under the financing agreements, we propose to issue convertible preferred stock to the Advent funds that we expect will represent approximately 32% of our outstanding common stock (on a fully diluted basis) following the closing. We would issue convertible preferred stock to current holders of our Series B preferred stock that we expect will represent approximately 7% of our outstanding common stock (on a fully diluted basis) following the closing. We would also issue common stock warrants to both the Advent funds and the Series B holders. Under applicable Nasdaq rules and the terms of the financing agreements, we must obtain stockholder approval in order to complete the proposed financing.

At the special meeting, we also will seek approval of charter amendments to further implement our capital restructuring. One goal of these amendments is to give the board the discretion to proceed with either a one-for-two or a one-for-three reverse split of our common stock. We believe a reverse stock split could enable the number and price range of our outstanding shares of common stock to meet the investment criteria of a broader range of investors, which could increase institutional investor interest in our common stock. The other proposed charter amendments will, among other things, help ensure that we will have a sufficient number of shares of common stock available to meet our obligations under the terms of our new and existing equity securities and for other corporate purposes.

Finally, we will seek stockholder approval of the adoption of a new stock incentive plan and a replenishment of the shares available under our director stock option plan. We believe these equity compensation initiatives will help us restore the competitiveness of our compensation programs. We view the plans as critical to our ability to attract, motivate and retain the types of key employees and non-employee directors who are essential to our growth and success.

Your board of directors has determined that the terms of the proposed financing are fair to AspenTech and in the best interests of AspenTech and its stockholders. Your board has approved the issuance and sale of the new equity securities, the amendments to our charter, and the implementation of the equity plan arrangements, and it recommends that you vote **FOR** each of the proposals to be considered at the special meeting.

Your vote is important. I urge you to read carefully the enclosed notice of special meeting and proxy statement. **Whether or not you plan to attend the special meeting, please complete and sign the enclosed proxy card and return it promptly in the enclosed postage-prepaid envelope.** If you attend the special meeting and prefer to vote your shares in person, you will be able to do so.

On behalf of your board of directors and management, thank you for your continued support of AspenTech.

Sincerely,

David L. McQuillin
President and Chief Executive Officer

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NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

The board of directors of Aspen Technology, Inc. has called a special meeting to seek stockholder approval of a proposed preferred stock financing and certain other matters listed below. Stockholder approval of items 1, 4 and 5 below is necessary for us to complete the proposed preferred stock financing. Each of the seven items of business set forth below is a separate proposal, and approval of any such item of business is not contingent upon approval of any other item of business, except that the board will not proceed with the amendment to the certificate of incorporation contemplated by item 4 below unless both items 1 and 4 are approved. In addition, items 2 and 3 below present alternative proposals for a reverse stock split; if both of items 2 and 3 are approved, the board of directors may elect to effect either, or neither, of the reverse stock splits contemplated by those items.

Each of the matters to be submitted to our stockholders at the special meeting is described more fully in the accompanying proxy statement. We encourage you to read the proxy statement, including the annexes, in their entirety. The details of the special meeting are as follows:

Time and Date	10 a.m., Eastern daylight savings time, on Wednesday, August 13, 2003
Location	The Bay Tower, Thirty-Third Floor, 60 State Street, Boston, Massachusetts
Items of Business	At the special meeting, you and our other stockholders will be asked to:

1. approve the issuance of shares of common stock that would be issuable (a) upon conversion of, or as dividends on, Series D convertible preferred stock that Aspen Technology, Inc. proposes to issue, (b) upon exercise of warrants that Aspen Technology, Inc. proposes to issue contemporaneously with the Series D convertible preferred stock, or (c) upon exercise of preemptive rights that Aspen Technology, Inc. proposes to grant in connection with the issuance of the Series D convertible preferred stock and stock warrants;

2. authorize the board of directors, in its discretion, to amend the certificate of incorporation to effect a one-for-two reverse split of the outstanding common stock at any time prior to January 31, 2004;

3. authorize the board of directors, in its discretion, to amend the certificate of incorporation to effect a one-for-three reverse split of the outstanding common stock at any time prior to January 31, 2004;

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4. amend the certificate of incorporation to increase (a) the number of authorized shares of common stock from 120,000,000 to 210,000,000 and (b) the total number of authorized shares of capital stock from 130,000,000 to 220,000,000, subject in each case to appropriate adjustment if a reverse split of the common stock is effected;

5. amend the certificate of incorporation to reduce the par value of common stock from $0.10 per share to $0.001 per share;

6. approve the adoption of our 2003 stock incentive plan;

7. amend our 1995 director stock option plan to increase the number of shares of common stock reserved for issuance under the plan from 440,000 to 800,000, subject to appropriate adjustment if a reverse split of the common stock is effected; and

8. transact any other business properly presented at the special meeting.

Record Date

You may vote at the special meeting if you were a stockholder of record at the close of business on June 20, 2003.

Proxy Voting

You may vote on these matters in person, by telephone or by proxy. Unless you are voting by telephone, we ask that you complete and return the enclosed proxy card promptly whether or not you plan to attend the special meeting in the enclosed addressed, postage-paid envelope, so that your shares will be represented and voted at the special meeting in accordance with your wishes. If you attend the special meeting, you may withdraw your proxy and vote your shares in person.

By Order of the Board of Directors,

Stephen J. Doyle
Secretary

Cambridge, Massachusetts
July 11, 2003

PROXY STATEMENT
FOR
SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD ON AUGUST 13, 2003

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PROXY STATEMENT SUMMARY

We have included the following summary of the proposed financing and related matters to provide background information about the proposals to be presented at the special meeting. You are encouraged to read this entire proxy statement, including the annexes. This summary is qualified in its entirety by the full text of this proxy statement, including the annexes.

Special Meeting *(see discussion beginning at page 10)*

We have sent you this proxy statement and the enclosed proxy card because the board of directors is soliciting your proxy to vote at our special meeting of stockholders or any adjournment or postponement of the special meeting. The special meeting will be held at 10 a.m., Eastern daylight savings time, on Wednesday, August 13, 2003, at The Bay Tower, Thirty-Third Floor, 60 State Street, Boston, Massachusetts. You may vote at the special meeting if you were a stockholder of record at the close of business on June 20, 2003, the record date for the special meeting.

Background of the Financing *(see discussion beginning at page 21)*

In the past fiscal year we have experienced a significant deterioration in our working capital position, which has raised concerns about our liquidity in the short term and our ability to meet balance sheet obligations coming due over the next two years. These concerns, coupled with continuing uncertainties surrounding the investigation by the Federal Trade Commission, or FTC, of the effects under federal antitrust laws of our acquisition of Hyprotech Ltd. in May 2002, have created difficulties for investors considering purchases or sales of common stock, for potential customers evaluating purchases of our products, and for lenders and vendors assessing whether to provide us with financing.

In October 2002 we engaged Credit Suisse First Boston to advise us with respect to our financial position and to recommend potential alternatives by which we could raise additional capital and could restructure existing obligations to pay up to $146,250,000 in our fiscal years ending June 30, 2004 and 2005 to retire outstanding debt and equity securities. This process reinforced our belief that our current capital structure and level of working capital, together with the current economic environment, carry significant risks, including:

Significant upcoming repayment obligations. In fiscal years 2004 and 2005, we will be required to repay at maturity $86,250,000 in aggregate principal amount of our 5 1/4% subordinated convertible notes due June 15, 2005, or convertible debentures, and may be required to redeem all or a portion of $60,000,000 in stated value of our outstanding Series B-I convertible preferred stock, or Series B-I shares, and Series B-II convertible preferred stock, or Series B-II shares. The convertible debentures must be repaid in cash, while the Series B-I shares and Series B-II shares, or collectively the Series B shares, may be redeemed for cash or stock, in our discretion. If we make all of the required payments in cash, our liquidity will be materially reduced and we may not have sufficient working capital to execute our current business plan. If we redeem Series B shares by issuing new shares of common stock, our existing common stockholders could suffer significant dilution in ownership percentage and reported earnings per share.

Uncertain outcome of FTC inquiry. The FTC is continuing its investigation of the effects of our acquisition of Hyprotech under federal antitrust laws. The outcome of this investigation remains uncertain, and the FTC may seek to impose a wide variety of remedies. Some of those remedies, as well as the FTC's commencement of a formal action against us, could significantly reduce our cash flow or otherwise materially impair our ability to continue to operate under our current business plan.

Continuing softness in information technology spending. We have experienced significant volatility in our results from operations over the past two years, driven largely by continued softness in information technology spending by existing and potential customers in light of the current economic environment. If potential customers continue to limit their spending on information technology, we may not be able to achieve our expected levels of revenue and our working capital could be reduced significantly. Any such revenue shortfall could force us to take short-term cash conservation actions that are not consistent with our long-term business plan.

Dependence on sales of installment receivables. We continue to rely heavily on the sale of installment receivables to provide us with working capital. Any limitations on our ability to access these markets, including concerns by our vendor finance participants relating to our financial stability, could have a material adverse effect on our cash flow.

Over the past two quarters, our operational and financial performance has improved, providing us with a limited opportunity to raise capital and restructure our repayment obligations under the convertible debentures and Series B shares. Over the past three quarters, we have evaluated a variety of public and private market alternatives to raise additional capital, as well as alternatives to restructure our upcoming payment obligations without raising capital. Our access to the traditional capital markets continues to be constrained, however, by a number of factors, including the risks outlined above. As a result, we have concluded that a private equity investment is the most attractive alternative to accomplish our objectives of strengthening our balance sheet and improving our liquidity.

Summary of the Financing *(see discussion beginning at page 24)*

On June 1, 2003, we entered into a securities purchase agreement, or the purchase agreement, providing for the private placement of shares of our Series D-1 convertible preferred stock, or Series D-1 shares, and Series D-2 convertible preferred stock, or Series D-2 shares. We refer to the Series D-1 shares and Series D-2 shares collectively as Series D shares. Subject to obtaining stockholder approval, we intend to issue:

300,300 Series D-1 shares to investment partnerships managed by Advent International Corporation, or the Advent investors, for a purchase price of $333.00 per share, or approximately $100,000,000 in total;

63,064 Series D-2 shares to the investors that currently hold Series B shares, or the Series B investors, in exchange for 16,918 outstanding Series B-I shares and 7,788 outstanding Series B-II shares; and

warrants, which we refer to as WD warrants, to the Advent investors and the Series B investors (pro rata based on their Series D share ownership) to purchase up to 7,267,286 shares of common stock.

Also on June 1, 2003, we entered into a repurchase and exchange agreement, or the exchange agreement, with the Series B investors pursuant to which we intend, subject to stockholder approval, to:

repurchase 23,082 outstanding Series B-I shares and 12,212 outstanding Series B-II shares, which would constitute all of the outstanding Series B shares not proposed to be exchanged for Series D-2 shares, for approximately $30,000,000 in cash; and

issue new warrants, which we refer to as WB warrants, to the Series B investors to purchase 791,044 shares of common stock, in exchange for outstanding warrants currently held by the Series B investors, which we refer to as existing warrants, exercisable to purchase the same number of shares of common stock but having other terms, including exercise price and antidilution protection, differing materially from the proposed WB warrants.

If the financing transactions contemplated by the purchase agreement and the exchange agreement, which we refer to as the financing, are completed, then, based on securities outstanding as of June 20, 2003:

The Advent investors would own Series D-1 shares representing the right to acquire 31.7% of the outstanding common stock, on a fully diluted basis, and would hold WD warrants to acquire an additional 6.3% of the outstanding common stock at an exercise price per share of $3.33.

The Series B investors would own Series D-2 shares representing the right to acquire 6.6% of the outstanding common stock, on a fully diluted basis, and would hold WD warrants to acquire an additional 1.3% of the outstanding common stock at an exercise price per share of $3.33. The Series B investors would also hold WB warrants to acquire an additional 0.8% of the outstanding common stock at an exercise price of $4.08 per share. In addition, the Series B investors would continue to hold other currently outstanding warrants to acquire an additional 0.8% of the outstanding common stock at an exercise price of $9.72 per share.

The purchase agreement and the exchange agreement are included as exhibits to our Current Report on Form 8-K, dated June 1, 2003, as filed with the SEC on June 2, 2003.

Reasons for the Financing *(see discussion beginning at page 25)*

We believe the financing will provide us with a more stable capital structure that will help position us for long-term growth. In the short-term, the financing will eliminate provisions of the Series B shares that limit our ability to raise additional capital and to refinance our repayment obligations under the convertible debentures. In addition, the financing will strengthen our balance sheet by increasing our liquidity and working capital. We believe the resulting reduction of risk and increased stability within our capital structure, along with recent improvements in our operational and financial performance, will enhance the confidence our stockholders, customers, lenders and vendors have in AspenTech.

The Series B investors have the right to require that we redeem up to $30,000,000 in stated value of the outstanding Series B shares beginning in August 2003 and that we redeem the remaining $30,000,000 in stated value of Series B shares beginning in February 2004. We may redeem the Series B shares by delivering cash, common stock or, in certain circumstances, our nonconvertible Series C preferred stock, subject to certain limitations. If we make all or a significant portion of these redemption payments in cash, our liquidity will be materially reduced and we may not have sufficient working capital to execute our current business plan. If we pay the redemption prices by issuing new shares of common stock, our existing common stockholders could suffer significant dilution in ownership percentage and reported earnings per share. In addition, all of the outstanding $86,250,000 in principal amount of convertible debentures will mature in June 2005.

If the financing is completed, we will eliminate our redemption obligations under the Series B shares by retiring all of the outstanding Series B shares for a combination of $30,000,000 in cash, $21,000,000 in stated value of Series D-2 shares and WD warrants. The value of the cash and Series D-2 shares delivered to the Series B investors in the financing will, without giving effect to the WD warrants, represent a $9,000,000, or 15%, discount from the $60,000,000 stated value of the Series B shares. In addition, we will set aside $45,000,000 of the net proceeds to repay a portion of the convertible debentures at or prior to maturity or for such other purpose as may be agreed between us and the Advent Investors. We will use approximately $15,000,000 of the net proceeds to increase our working capital.

If the financing is completed, we will also retire the existing warrants held by the Series B investors by exchanging the existing warrants for new WB warrants. The terms of both the existing warrants and the Series B shares include "full ratchet" antidilution provisions. This means that if we were to issue

equity securities, or securities convertible into equity securities, at a price per share less than the exercise prices of any of the existing warrants (which range from $20.64 to $23.99) or the conversion prices of the Series B shares (which range from $17.66 to $19.97), the exercise prices of the existing warrants or the conversion prices of any of the Series B shares, as the case may be, would be reset at the price at which such securities were sold. Moreover, the number of shares for which the existing warrants are then exercisable or for which the Series B shares are then convertible would be increased proportionately, so that the aggregate exercise or conversion prices remain unchanged. If we had agreed to issue the Series D shares without arranging for the retirement of the existing warrants, the exercise price of each of the existing warrants would have decreased to $3.33 as a result of the antidilution provisions contained in the existing warrants. By retiring the Series B shares and exchanging the existing warrants for the new WB warrants, which include less onerous "weighted average" antidilution provisions but have an exercise price of $4.08 per share, we will eliminate a significant restriction on our ability to raise additional capital.

The financing will result in substantial dilution to our stockholders that will exceed the dilution that would have been incurred under the Series B shares. Based on securities outstanding and market prices as of June 20, 2003, our stockholders would suffer dilution of their ownership percentage of 23.1% if we were to redeem all of the outstanding Series B shares with common stock, but would experience dilution of 48.1% from the issuance of securities in the financing. We also have additional warrants outstanding to acquire up to 750,000 shares of common stock at an exercise price of $15.00 per share. These warrants contain weighted average antidilution provisions and, as a result of the closing of the financing, will be exercisable for up to 1,157,407 shares of common stock at an exercise price of $9.72. The financing will also accelerate in full the exercisability, or vesting, of outstanding options to acquire an aggregate of 7,662,363 shares of common stock, which constitute all of our outstanding options other than options with exercise prices of less than $10.00 held by certain of our executive officers, who have waived their rights to such acceleration unless their employment is terminated without cause at any time. The weighted average exercise price of the options subject to acceleration is $12.13, and 41.3% of those options have exercise prices of less than $10.00. In addition, certain of the Series B investors have asserted informally, as described below under "Proposal 1. Issuance of Common Stock Consequences if Stockholder Approval is Not Obtained," that they believe the conversion price of the Series B shares and the exercise price of the existing warrants may have adjusted downward to $2.59 per share, which would result in substantial additional dilution of common stockholders if the Series B shares remain outstanding.

As a condition to entering into negotiations with respect to the proposed financing, the Series B investors required that we agree to certain terms that would apply if the financing is not completed. Those terms are contained in the exchange agreement. If the financing is not completed and we are unable to redeem the Series B shares by delivering cash and common stock because we do not have sufficient authorized shares of common stock available, we may be required to solicit, at a subsequent stockholder meeting, stockholder approval of a charter amendment to increase the number of authorized shares of common stock sufficient to fulfill our redemption obligations for the Series B shares by delivering common stock. We would not be able to pay any redemption price of Series B shares by delivering nonconvertible Series C preferred stock unless we were unable to obtain stockholder approval of the charter amendment. If we were to issue nonconvertible Series C preferred stock in payment of the redemption price of Series B shares as a result of an event occurring on or prior to January 30, 2004, the holder of those Series B shares may elect, within 30 days after such issuance, to exchange the nonconvertible Series C preferred stock for senior subordinated notes, which we refer to as Series C notes. We would not be required to issue Series C notes in an aggregate principal amount in excess of (1) $60,000,000, which is the stated value of the Series B shares, less (2) the value of any cash and common stock previously delivered in payment of the redemption price of Series B shares. Series C notes would not be convertible into common stock, would bear interest at an annual rate of 10%, would mature five years after issuance, and would be subordinated only to

specified bank indebtedness for working capital. Series C notes would contain restrictions on, among other things, the amount of future debt that we could incur.

Other Proposals *(see discussions at pages 37 through 54)*

In addition to soliciting stockholder approval of the proposal to approve the financing (Proposal 1), the board of directors is requesting approval of several other proposals intended to further or facilitate the purposes underlying the financing. We propose to amend our charter to:

effect either a one-for-two reverse split (Proposal 2) or a one-for-three reverse split (Proposal 3) of the outstanding common stock in the event the board determines, after the special meeting but no later than January 31, 2004, that implementation of an approved reverse split would, based on then-existing conditions, improve the marketability and liquidity of the common stock;

increase the number of shares of common stock authorized for issuance (Proposal 4); and

reduce the per share par value of the common stock (Proposal 5).

Further, we propose to implement a new 2003 stock incentive plan, or the 2003 plan (Proposal 6), and to increase the number of shares of common stock issuable under our existing 1995 director stock option plan, or the 1995 director plan (Proposal 7). We are proposing these actions because we believe that our future success depends significantly upon our ability to provide incentives to new and existing employees and to outside directors in the form of equity grants. In June 2003 the compensation committee of the board, based in part on advice from compensation consultants, adopted a new corporate equity and executive compensation plan, or the compensation plan, pursuant to which we will grant, on the closing date of the financing, options to acquire a total of approximately 6,000,000 shares of common stock to our employees,

including our chief executive officer and certain of our other executive officers. For more information on these grants see "Additional Information Executive Officer Compensation Corporate Equity and Executive Compensation Plan" on page 60. After giving effect to these grants, an immaterial number of shares of common stock will be available for option grants to employees under our existing option plans prior to July 2004, when additional shares will become available under the 2001 stock option plan pursuant to its terms. No shares of common stock remain available for option grants under the 1995 director plan.

Voting Agreements *(see discussion beginning at page 35)*

In accordance with the purchase agreement, we have entered into voting agreements with each of the Series B investors, each of our directors, and certain of our executive officers, including Lawrence B. Evans, our chairman, and David L. McQuillin, our president and chief executive officer. The voting agreements generally provide that the parties will vote in favor of each of the proposals being presented at the special meeting and will vote against matters that might result in our breach of the purchase agreement or that might interfere with the matters presented at the special meeting. As of the record date, the parties who have entered into voting agreements would be entitled to vote shares that represent approximately 8.3% of the voting power of the outstanding common stock, 100% of the voting power of the outstanding Series B shares and 11.6% of the voting power of the outstanding common and preferred stock, on an as-converted basis, after giving effect to the 4.99% conversion limitation described on page 62.

A form of the voting agreement is included as an exhibit to our Current Report on Form 8-K, dated June 1, 2003, as filed with the SEC on June 2, 2003.

Material Terms of the Series D Shares *(see discussion beginning at page 28)*

Dividends. Each of the Series D shares will have a stated value of $333.00 and will be entitled to a cumulative dividend of 8% per year, payable at the discretion of the board of directors. Accumulated

dividends, when and if declared by the board, could be paid in cash or, subject to specified conditions, common stock.

Voting Generally. Holders of Series D shares generally will vote, on an as-converted or economic equivalent basis, with holders of common stock, as a single class, on matters presented to our stockholders for a vote. Each Series D share will represent a number of votes equal to $333.00, the stated value of each of the Series D shares, divided by the greater of (1) $3.33 and (2) the average of the closing bid prices of the common stock on the Nasdaq National Market for the five trading days preceding the closing of the financing. For example, if the average of the closing bid prices of the common stock for the five trading days preceding the closing of the financing is $4.50 per share, each Series D share will represent 74 votes. The approval of the holders of a majority of the Series D-1 shares and the holders of a majority of the Series D-2 shares, each voting separately as a class, will be required to approve certain corporate actions, including any amendment of our charter or by-laws that is inconsistent with the Series D certificate of designation or that adversely affects the holders of Series D shares and any authorization of a class of capital stock ranking senior to or on parity with the Series D shares. In addition, holders of Series D-1 shares, voting as a separate class, have the right to approve certain redemptions or repurchases of capital stock, acquisitions of capital stock or assets from other entities and the incurrence of certain amounts of debt for borrowed money by us. Holders of Series D shares will not have a separate class approval right to approve a transaction that will result in a change in control of AspenTech, except as provided by law.

Voting for Directors. Holders of Series D-1 shares, exclusively and as a single class, will be entitled to elect a number of directors calculated as a ratio of the voting power of the Series D-1 shares to the total voting power of all of our voting stock. The calculation depends on market prices of the common stock shortly before the closing of the financing, and therefore we are unable, at this time, to determine the number of directors to be designated by these holders. As an example, if the closing of the financing had occurred on the record date, then, based on the market price of the common stock and the number of shares of our voting stock then outstanding, the holders of Series D-1 shares would have been entitled to designate three of nine directors. In no event will the holders of Series D-1 shares be entitled to designate fifty percent or more of the board of directors as a result of the financing. Holders of Series D-2 shares will not have a separate class right to elect any directors, but will instead vote for the election of directors on an as-converted or economic equivalent basis, with holders of common stock.

Conversion. At the option of the holder, each Series D share will be convertible into 100 shares of common stock, subject to a weighted-average antidilution adjustment if we issue certain additional securities at a price per share of less than $3.33 (subject to appropriate adjustment if a reverse split is effected).

Redemption at Option of AspenTech. We will be entitled to redeem Series D shares for $416.25 per share, plus any accumulated and unpaid dividends, at our option at any time on or after the third anniversary of the issuance of the Series D shares if, among other things, the daily volume-weighted average trading price of the common stock exceeds $7.60 per share (subject to appropriate adjustment if a reverse split is effected) for 45 consecutive trading days. If we make such an election, holders of Series D shares could elect to convert their Series D shares into common stock rather than having them redeemed.

Redemption at Option of Holders. Holders of Series D-1 shares and holders of Series D-2 shares separately will be entitled to request that we redeem (1) up to fifty percent of the Series D-1 shares or Series D-2 shares, as the case may be, at any time on or after the sixth anniversary of issuance and (2) the remaining Series D-1 shares or Series D-2 shares, as the case may be, at any time on or after the seventh anniversary of issuance, in each case for $333.00 per share, plus any accumulated and

unpaid dividends. As a result of these redemption provisions, the Series D shares will be presented outside of stockholders' equity on our balance sheet.

Liquidation. In the event of our liquidation, dissolution or winding up, holders of Series D shares will have priority over holders of common stock to the extent of any assets available for distribution to stockholders. In such event, holders of Series D shares will be entitled to at least $333.00 per share plus any accumulated but unpaid dividends. Alternatively, holders of Series D shares could elect to convert their Series D shares into common stock pursuant to the conversion feature described above prior to the liquidation, dissolution or winding up event. If so, holders of Series D shares will share ratably with the holders of common stock to the extent assets are available for distribution to stockholders. Mergers and certain other similar transactions may be deemed to be liquidation events for these purposes.

Registration Rights. Under an investor rights agreement that we will enter into in connection with the issuance of the Series D shares, the WB warrants and WD warrants, we will grant to holders of Series D shares registration rights with respect to those holders' registrable shares that is, shares of common stock issuable upon conversion of the Series D shares, upon exercise of the WB warrants and the WD warrants, as dividends on the Series D shares, or upon the conversion or exercise of securities issued pursuant to the preemptive rights described below. Specifically, we will grant to holders of Series D-1 shares four demand registration rights and unlimited incidental, or so-called "piggyback," registration rights with respect to the Advent investors' registrable shares. We will agree with holders of Series D-2 shares to file a shelf registration statement with the SEC promptly after issuance of the Series D-2 shares with respect to Series B investors' registrable shares.

Preemptive Rights. Under the investor rights agreement, we will grant to holders of Series D shares preemptive rights to participate in future issuances of certain of our securities until such time as they hold less than 10% of the Series D shares. These preemptive rights will not apply to, among other things, stock issued in firm-commitment underwritten public offerings, stock issued solely in consideration for the acquisition of all or substantially all of the stock or assets of an entity, or stock issued pursuant to certain employee stock plans.

A form of the certificate of designations setting forth the terms of the Series D shares is attached as Annex B to this proxy statement and a form of the investor rights agreement is included as an exhibit to our Current Report on Form 8-K, dated June 1, 2003, as filed with the SEC on June 2, 2003.

Material Terms of the WB and WD Warrants *(see discussion beginning at page 31)*

WB Warrants. The WB warrants may be exercised to acquire up to 791,044 shares of common stock at an initial exercise price of $4.08 per share (both subject to appropriate adjustment if a reverse split is effected). The number of shares is further subject to adjustment in the event of stock splits, recapitalizations, reorganizations and, in certain circumstances, issuances of our equity securities (or debt securities convertible into equity securities) at a price per share less than the exercise price then in effect. The WB warrants will be exercisable for cash or, at any time at which the underlying shares of common stock are not registered under the Securities Act, through a "cashless exercise" feature. The WB warrants will be exercisable immediately upon issuance and will have a term of approximately three and one-half years.

WD Warrants. The WD warrants may be exercised to acquire up to 7,267,286 shares of common stock at a price of $3.33 per share (both subject to appropriate adjustment if a reverse split is effected). The number of shares is further subject to adjustment in the event of stock splits, recapitalizations, reorganizations and, in certain circumstances, issuances of our equity securities, or debt securities convertible into equity securities, at a price per share less than the WD warrant exercise price then in effect. The WD warrants could be exercised for cash or, at any time at which the underlying shares of

common stock are not registered under the Securities Act, through a "cashless exercise" feature. The WD warrants will be exercisable immediately upon issuance and will have a term of seven years.

Forms of the WB warrant and WD warrant are included as exhibits to our Current Report on Form 8-K, dated June 1, 2003, as filed with the SEC on June 2, 2003.

We are asking our stockholders to approve a reverse split of the common stock in two ratios: one-for-two and one-for-three. If one or both of the reverse splits contemplated by Proposals 2 and 3 are approved at the special meeting, the board of directors may, in its sole discretion, effect one of the approved reverse splits, or neither of them. Except where expressly indicated, all share numbers, stock prices and exercise amounts in this proxy statement do not give effect to a reverse split.

NOTE REGARDING FORWARD-LOOKING STATEMENTS

This proxy statement contains "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act, which are intended to be covered by the safe harbors created by those laws. For this purpose, any statements contained in this proxy statement that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects" and similar expressions are intended to identify forward-looking statements. Readers are cautioned that all forward-looking statements involve risks and uncertainties, many of which are beyond our control, including the factors set forth under the heading "Factors that may Affect Future Results and the Trading Price of Our Common Stock" in our Current Report on Form 8-K filed with the SEC on July 11, 2003. Although we believe that the assumptions underlying the forward-looking statements contained in this proxy statement are reasonable, any of the assumptions could be inaccurate and we cannot assure you that actual results will be the same as those indicated by the forward-looking statements. The forward-looking statements represent our estimates as of the date on which we filed this proxy statement with the SEC. In light of the significant uncertainties inherent in the forward-looking statements included in this proxy statement, you should not consider our inclusion of such information as a representation by us or any other person that these objectives and plans will be achieved. Moreover, we assume no obligation to update these forward-looking statements to reflect actual results, changes in assumptions or changes in other factors that might affect the forward-looking statements.

QUESTIONS AND ANSWERS

We have included the following discussion of the financing and related matters to provide summary answers to some of the questions that you might have about the special meeting and the proposals to be presented to our stockholders at the special meeting. You are encouraged to read the entire proxy statement, including the annexes. The information below is qualified in its entirety by the full text of this proxy statement and the attached annexes.

About the Special Meeting

Q. *Why did AspenTech send me this proxy statement?*

A. We have sent you this proxy statement and the enclosed proxy card because the board of directors is soliciting your proxy to vote at the special meeting, including any adjournment or postponement of the special meeting. The special meeting will be held at 10 a.m., Eastern daylight savings time, on Wednesday, August 13, 2003, at The Bay Tower, Thirty-Third Floor, 60 State Street, Boston, Massachusetts.

THIS PROXY STATEMENT summarizes information about the proposals to be considered at the special meeting and other information you may find useful in determining how to vote.

THE PROXY CARD is the means by which you actually authorize the persons named in the proxy card to vote your shares in accordance with your instructions.

We are mailing this proxy statement and the enclosed proxy card to stockholders for the first time on or about July 7, 2003.

Q. *What is a proxy and how does it work?*

A. We are asking for your proxy. Giving your proxy means that you authorize the persons named in the proxy to vote your shares at the special meeting in the manner that you direct, or if you do not provide directions with respect to a proposal, in the manner recommended by the board of directors in this proxy statement. You may direct the proxy holders to vote for or against a proposal or to abstain from voting.

Q. *Who is soliciting proxies on behalf of AspenTech? Who pays the expenses of the proxy solicitation?*

A. Our directors, officers and employees may solicit proxies in person or by mail, telephone, facsimile or electronic mail. We have also retained a proxy solicitor, The Proxy Advisory Group of Strategic Stock Surveillance, to assist in the solicitation of proxies for the special meeting at an estimated cost to us of $15,000, plus reimbursement of reasonable expenses. We will reimburse brokers and other nominee holders of shares for expenses they incur in forwarding proxy materials to beneficial owners of those shares.

Q. *What proposals am I being asked to approve as an AspenTech stockholder?*

A. We are asking for you to approve the following proposals, each of which is more fully set forth in this proxy statement:

Proposal 1	the issuance of shares of common stock that would be issuable (a) upon conversion of, or as dividends on, the Series D shares that we propose to issue, (b) upon exercise of the WB and WD warrants, or (c) upon exercise of preemptive rights that we propose to grant in connection with the issuance of the Series D shares and the WB and WD warrants;

Proposal 2	the authorization of the board of directors, in its discretion, to amend the charter to effect a one-for-two reverse split of the outstanding common stock at any time prior to January 31, 2004;
Proposal 3	the authorization of the board of directors, in its discretion and as an alternative to the reverse split contemplated by Proposal 2, to amend the charter to effect a one-for-three reverse split of the outstanding common stock at any time prior to January 31, 2004;
Proposal 4	the amendment of the charter to increase (a) the number of authorized shares of common stock from 120,000,000 to 210,000,000 and (b) the total number of authorized shares of capital stock from 130,000,000 to 220,000,000, subject in each case to appropriate adjustment if a reverse split is effected;
Proposal 5	the amendment of the charter to reduce the par value of the common stock from $0.10 per share to $0.001 per share;
Proposal 6	the adoption of our 2003 stock incentive plan; and
Proposal 7	the amendment of our 1995 director stock option plan to increase the number of shares of common stock

reserved for issuance under the plan from 440,000 to 800,000, subject to appropriate adjustment if a reverse split is effected.

Q. *Who may vote at the special meeting?*

A: Only holders of common stock and preferred stock at the close of business on the record date, June 20, 2003, are entitled to receive notice of, and to vote their shares at, the special meeting. As of the record date, there were issued and outstanding 40,000 Series B-I shares, 20,000 Series B-II shares and 39,236,779 shares of common stock. At the special meeting, you will be entitled to one vote for each share of common stock you held on the record date. Holders of Series B shares will be entitled to an aggregate of 4,236,378 votes at the special meeting after giving effect to the 4.99% conversion limitation.

Q. *How do I vote?*

A. You may vote your shares at the special meeting in person or by proxy or prior to the special meeting by telephone:

TO VOTE IN PERSON, you must attend the special meeting, and then complete and submit the ballot provided at the special meeting.

TO VOTE BY TELEPHONE, you must call the toll-free telephone number specified on your proxy card. If you vote by telephone, you should not return your proxy card unless you subsequently decide to amend your vote by proxy.

TO VOTE BY PROXY, you must complete and return the enclosed proxy card. Your proxy card will be valid only if you sign, date and return it before the special meeting. By completing and returning the proxy card, you will direct the designated persons to vote your shares at the special meeting in the manner you specify in the proxy card. If you complete the proxy card with the exception of the voting instructions, then the designated persons will vote your shares in favor of the proposals described in this proxy statement. If any other business properly comes before the special meeting, the designated persons will have the discretion to vote your shares as they deem appropriate.

Q. *What if a broker holds my shares in "street name"?*

A. If your shares are held in "street name" by a broker or other nominee, your broker or other nominee will not be able to vote your shares prior to the special meeting (whether in person, by

telephone or otherwise) unless you have given your broker or other nominee instructions to vote your shares on the proposals described in this proxy statement. You should instruct your broker or other nominee to vote your shares by following the procedure provided by your broker or other nominee. You may also attend the special meeting and vote in person. If you elect to vote in person, however, you must bring to the special meeting a legal proxy from the broker or other nominee authorizing you to vote the shares.

Q. *May I revoke my proxy?*

A. Yes. Even if you vote by telephone or if you complete and return a proxy, you may revoke it at any time before it is exercised by taking one of the following actions:

send written notice that you wish to revoke your proxy to Stephen J. Doyle, our secretary, at our address set forth in the Notice of Special Meeting appearing before this proxy statement;

vote by telephone after the date of your earlier vote or proxy;

send us another signed proxy with a later date; or

attend the special meeting, notify Mr. Doyle that you are present, and then vote in person.

If, however, you elect to vote in person at the special meeting and a broker or other nominee holds your shares, you must bring to the special meeting a legal proxy from the broker or other nominee authorizing you to vote the shares.

Q.

How many shares must be present in person or by proxy to transact business at the meeting?

A.

Our by-laws require that shares representing a majority of the votes entitled to be cast by the holders of common stock and preferred stock outstanding on the record date, voting together as a class, be present in person or by proxy at the special meeting in order to constitute a quorum to transact business with regard to each of the proposals. In addition, shares representing a majority of the votes entitled to be cast by the holders of common stock outstanding on the record date, voting separately as a class, must be present in person or by proxy at the special meeting in order to constitute the quorum to transact business with regard to Proposal 5. Shares as to which holders abstain from voting as to a particular matter, and shares held in "street name" by brokers or nominees who indicate on their proxies that they do not have discretionary authority to vote those shares as to a particular matter (that is, broker non-votes), will be counted in determining whether there is a quorum of stockholders present at the special meeting.

Q.

How many votes are required to approve the proposals?

A.

The following chart sets forth the votes necessary to approve each of the proposals:

	Common Stock OUTSTANDING, Voting Separately	**Affirmative Votes Required Common Stock and Preferred Stock OUTSTANDING, Voting Together**	**Common Stock and Preferred Stock PRESENT (in Person or by Proxy), Voting Together**
Proposal 1			majority
Proposal 2		majority	
Proposal 3		majority	
Proposal 4		majority	
Proposal 5	majority	majority	
Proposal 6			majority
Proposal 7			majority

Abstentions and broker non-votes will not be counted as votes in favor of a proposal, and will also not be counted as votes cast or shares voting on such proposal. Accordingly, abstentions and

broker non-votes will have no effect on the outcome of voting with respect to Proposals 1, 6 and 7, since each of those proposals requires an affirmative vote of a majority of the shares of common stock and preferred stock, voting together as a single class, present or represented by proxy. Abstentions and broker non-votes, however, will have the effect of negative votes with respect to Proposals 2, 3 and 4, since each of those proposals requires the affirmative vote of the holders of a majority of all outstanding shares of common stock and preferred stock, voting together as a single class. Abstentions and broker non-votes will also have the effect of negative votes with respect to Proposal 5, because approval of this proposal requires the affirmative vote of the holders of a majority of all outstanding common stock, voting as a separate class, entitled to vote on this proposal, and the vote of the holders of a majority of all

outstanding common stock and preferred stock, voting together as a single class.

Q.

What if additional proposals are presented at the special meeting?

A.

If other proposals are properly presented at the special meeting for consideration, the persons named in the proxy card will have the discretion to vote on those proposals for you. As of the date of mailing of this proxy statement, we do not know of any other proposals to be presented at the special meeting.

Q.

Whom can I contact for more information regarding proxy materials or voting my shares?

A.

If you have any additional questions about the proposals in this proxy statement, you should contact Joshua Young, our director of investor relations, by telephone at (617) 949-1274 or by e-mail to *joshua.young@aspentech.com.*

About Proposal 1 (Issuance of Common Stock) *(see discussion at pages 21-36)*

Q:

Who is Advent?

A:

Advent International Corporation is one of the world's largest private equity firms, with $6 billion in cumulative capital raised and 14 offices in 13 countries. The firm has over 90 investment professionals operating in North America, Europe, Latin America and Asia. Since its founding in 1984, Advent has financed over 500 companies and has helped businesses raise $10 billion through public equity and debt offerings. These have included 128 initial public offerings on 20 stock exchanges worldwide. Advent seeks to help management teams build successful businesses by applying its industry expertise, international resources and local market knowledge.

Q.

What other alternatives did AspenTech explore prior to entering into this financing?

A:

Over the past three quarters, we have evaluated a variety of public and private market alternatives to raise additional capital, as well as alternatives to restructure our upcoming payment obligations without raising additional capital. Our access to the traditional capital markets has been constrained, however, by a number of factors, including our significant outstanding repayment obligations and the continuing FTC inquiry into the effects of our acquisition of Hyprotech.

In November 2002, we initiated a competitive process in which we held preliminary discussions with more than twenty potential investors. Based on those discussions, we narrowed the potential investor group and ultimately six investors, including Advent, submitted preliminary, nonbinding proposals under which they proposed investments in the form of convertible debt or preferred stock. We then further narrowed the potential investor list to three firms, each of which provided us with a revised proposal. After reviewing and seeking to negotiate further revisions to these proposals to make them more competitive with the Advent proposal, the board of directors determined to proceed with the Advent proposal.

We also considered a standalone recapitalization, in which we would seek to exchange new convertible debt or preferred stock for a portion of the outstanding convertible debentures. This arrangement would have addressed some of our concerns about paying the convertible debentures when they mature in June 2005 and would have been less dilutive to our common stockholders than the financing. We determined, however, that it was unlikely that such an exchange could have been completed on terms acceptable to us. Moreover, if we were to issue debt in such an exchange, we would not have decreased our overall leverage, and if we were to issue convertible preferred stock in exchange, our common stockholders still would have incurred substantial dilution. Finally, this type of recapitalization would not have provided any new working capital and would not have addressed the redemption and other concerns posed by the outstanding Series B shares.

Finally, we considered foregoing any type of financing transaction at this time. While this alternative would have avoided the dilutive effect of our issuing new equity securities, it would not have addressed our significant concerns about our upcoming repayment obligations, the outcome of the continuing FTC investigation of the Hyprotech acquisition, our working capital position, or our complex capital structure. While our operational and financial performance has improved over the past two fiscal quarters, we determined that it was in the best interests of our stockholders to proceed now with the financing to strengthen our balance sheet and improve our liquidity.

Q:

Are the Series D shares being sold at a discount (on an as-converted basis) to the existing outstanding common stock?

A.

Yes, if the market price of the common stock on the closing date of the financing is greater than $3.33, the conversion price of the Series D shares. After conducting an auction process, we entered into a non-binding letter of intent on March 25, 2003 with Advent to sell our Series D shares at $2.75 per share, which represented a 17.5% premium to the last reported sale price on the Nasdaq National Market of $2.34 per share on March 25, 2003 and an 11.8% premium to the average last reported sale price of $2.46 for the 15 trading days ended March 25, 2003. During the arm's-length negotiations of the purchase agreement and the exchange agreement, the market value of the common stock increased and we renegotiated to increase the conversion price to $3.33 and agreed to issue the WD warrants. After that time, the market price of the common stock continued to increase and we were unable to renegotiate further upward adjustments to the conversion price. On May 30, 2003, the last trading day before the signing of the purchase agreement and exchange agreement, the last reported sale price of the common stock on the Nasdaq National Market was $4.07. The average of the last reported sale prices for the 15 trading days ended May 30, 2003 was $3.79. The conversion price of $3.33 represented an 18.2% discount from the last reported sale price on May 30, 2003 and a 12.1% discount from the 15-day average price. The terms of the Series D shares, including the conversion price, were the result of arm's-length negotiations with Advent over a period of time and took into consideration, among other things, our financial condition and the pending FTC antitrust investigation.

Q:

Did AspenTech engage a financial advisor to advise the board of directors on the financing?

A.

Yes. We hired Credit Suisse First Boston to serve as our financial advisor with respect to the financing. In addition, we hired Needham & Company, Inc., which was not involved in the negotiation of the terms of the financing, to advise the board as to the fairness of the financing and to provide a written fairness opinion. On June 1, 2003, Needham delivered its written opinion to the board that as of May 30, 2003 and based on and subject to the matters set forth in the opinion, the consideration to be received by us under the purchase agreement and the exchange agreement is fair to us from a financial point of view. The full text of Needham's written opinion is attached to this proxy statement as Annex A. Needham's opinion does not constitute a recommendation to any stockholder with respect to Proposal 1 or any of the other proposals to be

considered at the special meeting. We encourage you to read the opinion carefully in its entirety for a description of the assumptions made, matters considered and limitations on the review undertaken by Needham.

Q:

Is AspenTech retiring the outstanding Series B shares at a discount to their stated value?

A.

The Series B shares are being repurchased or exchanged for a combination of $30,000,000 in cash, $21,000,000 in stated value of Series D-2 shares and a portion of the WD warrants. The value of cash and Series D-2 shares delivered to the Series B investors in the financing will represent a $9,000,000, or 15%, discount from the $60,000,000 stated value of the Series B shares. This calculation does not, however, give effect to our issuance of the WD warrants.

Q:

What percentages of AspenTech will the Advent investors and the Series B investors own if the financing is completed?

A.

If the financing is completed, the Advent investors will own Series D-1 shares representing the right to acquire, upon conversion, 31.7% of the outstanding common stock, on a fully diluted basis, based on securities outstanding as of June 20, 2003. In addition, the Advent investors will hold WD warrants to acquire an additional 6.3% of the outstanding common stock at an exercise price per share of $3.33.

The Series B investors will own Series D-2 shares representing the right to acquire, upon conversion, 6.6% of the outstanding common stock, on a fully diluted basis, based on securities outstanding as of June 20, 2003. These investors will also hold WD warrants to acquire an additional 1.3% of the outstanding common stock at an exercise price per share of $3.33 and WB warrants to acquire an additional 0.8% of the outstanding common stock at an exercise price per share of $4.08. In addition, the Series B investors will continue to hold other currently outstanding warrants to acquire an additional 0.8% of the outstanding common stock at an exercise price of $9.72 per share.

The following table summariess

Not Applicable

C. Reasons for the Offer and Use of Proceeds

Not Applicable

D. Risk Factors

Investment in shares of our common stock ("Common Shares") involves a degree of risk. These risks should be carefully considered before any investment decision is made. The following are some of the key risk factors generally associated with our business. However, the risks described below are not the only ones that we face. Additional risks not currently known to us, or that we currently deem immaterial, may also impair our business operations.

All of our potential products, including REOLYSIN®, are in the research and development stage and will require further development and testing before they can be marketed commercially.

Prospects for companies in the biotechnology industry generally may be regarded as uncertain given the nature of the industry and, accordingly, investments in biotechnology companies should be regarded as speculative. We are currently in the research and development stage on one product, REOLYSIN®, for human application, the riskiest stage for a company in the biotechnology industry. It is not possible to predict, based upon studies in animals and early stage human clinical trials, whether REOLYSIN® will prove to be safe and effective in humans. REOLYSIN® will require additional research and development, including extensive additional clinical testing, before we will be able to obtain the approvals of the relevant regulatory authorities in applicable countries to market REOLYSIN® commercially. There can be no assurance that the research and development programs we conducted will result in REOLYSIN® or any other products becoming commercially viable products, and in the event that any product or products result from the research and development program, it is unlikely they will be commercially available for a number of years.

To achieve profitable operations we, alone or with others, must successfully develop, introduce and market our products. To obtain regulatory approvals for products being developed for human use, and to achieve commercial success, human clinical trials must demonstrate that the product is safe for human use and that the product shows efficacy. Unsatisfactory results obtained from a particular study relating to a program may cause us to abandon our commitment to that program or the product being tested. No assurances can be provided that any current or future animal or human test, if undertaken, will yield favourable results. If we are unable to establish that REOLYSIN® is a safe, effective treatment for cancer, we may be required to abandon further development of the product and develop a new business strategy.

There are inherent risks in pharmaceutical research and development.

Pharmaceutical research and development is highly speculative and involves a high and significant degree of risk. The marketability of any product we develop will be affected by numerous factors beyond our control, including but not limited to:

- the discovery of unexpected toxicities or lack of sufficient efficacy of products which make them unattractive or unsuitable for human use;
- preliminary results as seen in animal and/or limited human testing may not be substantiated in larger, controlled clinical trials;
- manufacturing costs or other production factors may make manufacturing of products ineffective, impractical and non-competitive;
- proprietary rights of third parties or competing products or technologies may preclude commercialization;
- requisite regulatory approvals for the commercial distribution of products may not be obtained; and
- other factors may become apparent during the course of research, up-scaling or manufacturing which may result in the discontinuation of research and other critical projects.

Our products under development have never been manufactured on a commercial scale, and there can be no assurance that such products can be manufactured at a cost or in a quantity to render such products commercially viable. Production and utilization of our products may require the development of new manufacturing technologies and expertise. The impact on our business in the event that new manufacturing technologies and expertise are required to be developed is uncertain. There can be no assurance that we will successfully meet any of these technological challenges or others that may arise in the course of development.

Pharmaceutical products are subject to intense regulatory approval processes.

The regulatory process for pharmaceuticals, which includes preclinical studies and clinical trials of each compound to establish its safety and efficacy, takes many years and requires the expenditure of substantial resources. Moreover, if regulatory approval of a drug is granted, such approval may entail limitations on the indicated uses for which it may be marketed. Failure to comply with applicable regulatory requirements can, among other things, result in suspension of regulatory approvals, product recalls, seizure of products, operating restrictions and criminal prosecution. Further, government policy may change, and additional government regulations may be established that could prevent or delay regulatory approvals for our products. In addition, a marketed drug and its manufacturer are subject to continual review. Later discovery of previously unknown problems with the product or manufacturer may result in restrictions on such product or manufacturer, including withdrawal of the product from the market.

The U.S. FDA and similar regulatory authorities in other countries may deny approval of a new drug application if required regulatory criteria are not satisfied, or may require additional testing. Product approvals may be withdrawn if compliance with regulatory standards is not maintained or if problems occur after the product reaches the market. The FDA and similar regulatory authorities in other countries may require further testing and surveillance programs to monitor the pharmaceutical product that has been commercialized. Non-compliance with applicable requirements can result in fines and other judicially imposed sanctions, including product withdrawals, product seizures, injunction actions and criminal prosecutions.

In addition to our own pharmaceuticals, we may supply active pharmaceutical ingredients and advanced pharmaceutical intermediates for use in our customers' drug products. The final drug products in which the pharmaceutical ingredients and advanced pharmaceutical intermediates are used, however, are subject to regulation for safety and efficacy by the FDA and possibly other regulatory authorities in other jurisdictions. Such products must be approved by such agencies before they can be commercially marketed. The process of

obtaining regulatory clearance for marketing is uncertain, costly and time consuming. We cannot predict how long the necessary regulatory approvals will take or whether our customers will ever obtain such approval for their products. To the extent that our customers do not obtain the necessary regulatory approvals for marketing new products, our product sales could be adversely affected.

The FDA and other governmental regulators have increased requirements for drug purity and have increased environmental burdens upon the pharmaceutical industry. Because pharmaceutical drug manufacturing is a highly regulated industry, requiring significant documentation and validation of manufacturing processes and quality control assurance prior to approval of the facility to manufacture a specific drug, there can be considerable transition time between the initiation of a contract to manufacture a product and the actual initiation of manufacture of that product. Any lag time in the initiation of a contract to manufacture product and the actual initiation of manufacture could cause us to lose profits or incur liabilities.

The pharmaceutical regulatory regime in Europe and other countries is generally similar to that of the United States. We could face similar risks in these other jurisdictions as the risks described above.

Our operations and products may be subject to other government manufacturing and testing regulations.

Securing regulatory approval for the marketing of therapeutics by the FDA in the United States and similar regulatory agencies in other countries is a long and expensive process, which can delay or prevent product development and marketing. Approval to market products may be for limited applications or may not be received at all.

The products we anticipate manufacturing will have to comply with the FDA's current Good Manufacturing Practices (**"**cGMP**"**) and other FDA and local government guidelines and regulations, including other international regulatory requirements and guidelines. Additionally, certain of our customers may require the manufacturing facilities contracted by us to adhere to additional manufacturing standards, even if not required by the FDA. Compliance with cGMP regulations requires manufacturers to expend time, money and effort in production and to maintain precise records and quality control to ensure that the product meets applicable specifications and other requirements. The FDA and other regulatory bodies periodically inspect drug-manufacturing facilities to ensure compliance with applicable cGMP requirements. If the manufacturing facilities contracted by us fail to comply with the cGMP requirements, the facilities may become subject to possible FDA or other regulatory action and manufacturing at the facility could consequently be suspended. We may not be able to contract suitable alternative or back-up manufacturing facilities on terms acceptable to us or at all.

The FDA or other regulatory agencies may also require the submission of any lot of a particular product for inspection. If the lot product fails to meet the FDA requirements, then the FDA could take any of the following actions: (i) restrict the release of the product; (ii) suspend manufacturing of the specific lot of the product; (iii) order a recall of the lot of the product; or (iv) order a seizure of the lot of the product.

We are subject to regulation by governments in many jurisdictions. If we do not comply with healthcare, drug, manufacturing and environmental regulations, among others, our existing and future operations may be curtailed, and we could be subject to liability.

In addition to the regulatory approval process, we may be subject to regulations under local, provincial, state, federal and foreign law, including, but not limited to, requirements regarding occupational health, safety, laboratory practices, environmental protection and hazardous substance control, and may be subject to other present and future local, provincial, state, federal and foreign regulations.

The biotechnology industry is extremely competitive and we must successfully compete with larger companies with substantially greater resources.

Technological competition in the pharmaceutical industry is intense and we expect competition to increase. Other companies are conducting research on therapeutics involving the Ras pathway as well as other novel treatments or therapeutics for the treatment of cancer which may compete with our product. Many of these competitors are more established, benefit from greater name recognition and have substantially greater financial, technical and marketing resources than us. In addition, many of these competitors have significantly greater experience in undertaking research, preclinical studies and human clinical trials of new pharmaceutical products, obtaining regulatory approvals and manufacturing and marketing such products. In addition, there are several other companies and products with which we may compete from time to time, and which may have significantly better and larger resources than we do. Accordingly, our competitors may succeed in manufacturing and/or commercializing products

more rapidly or effectively, which could have a material adverse effect on our business, financial condition or results of operations.

We anticipate that we will face increased competition in the future as new products enter the market and advanced technologies become available. There can be no assurance that existing products or new products developed by our competitors will not be more effective, or be more effectively manufactured, marketed and sold, than any that may be developed or sold by us. Competitive products may render our products obsolete and uncompetitive prior to recovering research, development or commercialization expenses incurred with respect to any such products.

We rely on patents and proprietary rights to protect our technology.

Our success will depend, in part, on our ability to obtain patents, maintain trade secret protection and operate without infringing the rights of third parties. We have received Granted Patents in countries throughout the world, including the United States, Canada, Europe, and Japan. We file our Applications for Patent in the United States and under the PCT, allowing us to subsequently file in other jurisdictions. See “Narrative Description—Patent and Patent Application Summary”. Our success will depend, in part, on our ability to obtain, enforce and maintain patent protection for our technology in Canada, the United States and other countries. We cannot be assured that patents will issue from any pending applications or that claims now or in the future, if any, allowed under issued patents will be sufficiently broad to protect our technology. In addition, no assurance can be given that any patents issued to, or licensed by, us will not be challenged, invalidated, infringed or circumvented, or that the rights granted thereunder will provide continuing competitive advantages to us.

The patent positions of pharmaceutical and biotechnology firms, including us, are generally uncertain and involve complex legal and factual questions. In addition, it is not known whether any of our current research endeavours will result in the issuance of patents in Canada, the United States, or elsewhere, or if any patents already issued will provide significant proprietary protection or will be circumvented or invalidated. Since patent applications in the United States and Canada may be maintained in secrecy until at least 18 months after filing of the original priority application, and since publication of discoveries in the scientific or patent literature tends to lag behind actual discoveries by several months, we cannot be certain that we or any licensor were the first to create inventions claimed by pending patent applications or that we or the licensor were the first to file patent applications for such inventions. Loss of patent protection could lead to generic competition for these products, and others in the future, which would materially and adversely affect our financial prospects for these products.

Similarly, since patent applications filed before November 29, 2000 in the United States may be maintained in secrecy until the patents issue or foreign counterparts, if any, publish, we cannot be certain that we or any licensor were the first creator of inventions covered by pending patent applications or that we or such licensor were the first to file patent applications for such inventions. There is no assurance that our patents, if issued, would be held valid or enforceable by a court or that a competitor’s technology or product would be found to infringe such patents.

Accordingly, we may not be able to obtain and enforce effective patents to protect our proprietary rights from use by competitors. If other such parties obtain patents for certain information relied on by us in conducting our business, then we may be required to stop using, or pay to use, certain intellectual property, and as such, our competitive position and profitability could suffer as a result.

In addition, we may be required to obtain licenses under patents or other proprietary rights of third parties. No assurance can be given that any licenses required under such patents or proprietary rights will be available on terms acceptable to us. If we do not obtain such licenses, we could encounter delays in introducing one or more of our products to the market while we attempt to design around such

patents, or we could find that the development, manufacture or sale of products requiring such licenses could be foreclosed. In addition, we could incur substantial costs in defending ourselves in suits brought against us on such patents or in suits in which our attempts to enforce our own patents against other parties.

Our products may fail or cause harm, subjecting us to product liability claims.

Use of our product during current clinical trials may entail risk of product liability. We maintain clinical trial liability insurance; however, it is possible this coverage may not provide full protection against all risks. Given the

scope and complexity of the clinical development process, the uncertainty of product liability litigation, and the shrinking capacity of insurance underwriters, it is not possible at this time to assess the adequacy of current clinical trial coverage, nor the ability to secure continuing coverage at the same level and at reasonable cost in the foreseeable future. While we carry, and intend to continue carrying amounts believed to be appropriate under the circumstances, it is not possible at this time to determine the adequacy of such coverage.

In addition, the sale and commercial use of our product entails risk of product liability. We currently do not carry any product liability insurance for this purpose. There can be no assurance that we will be able to obtain appropriate levels of product liability insurance prior to any sale of our pharmaceutical products. An inability to obtain insurance on economically feasible terms or to otherwise protect against potential product liability claims could inhibit or prevent the commercialization of products developed by us. The obligation to pay any product liability claim or a recall of a product could have a material adverse effect on our business, financial condition and future prospects.

We have limited manufacturing experience and intend to rely on third parties to commercially manufacture our products, if and when developed.

To date, we have relied upon a contract manufacturer to manufacture small quantities of REOLYSIN®. The manufacturer may encounter difficulties in scaling up production, including production yields, quality control and quality assurance. Only a limited number of manufacturers can supply therapeutic viruses and failure by the manufacturer to deliver the required quantities of REOLYSIN® on a timely basis at a commercially reasonable price may have a material adverse effect on us. We have completed a program for the development of a commercial process for manufacturing REOLYSIN® and have filed a number of patent applications related to the process. There can be no assurance that we will successfully obtain sufficient patent protection related to our manufacturing process.

New products may not be accepted by the medical community or consumers.

Our primary activity to date has been research and development and we have no experience in marketing or commercializing products. We will likely rely on third parties to market our products, assuming that they receive regulatory approvals. If we rely on third parties to market our products, the commercial success of such product may be outside of our control. Moreover, there can be no assurance that physicians, patients or the medical community will accept our product, even if it proves to be safe and effective and is approved for marketing by Health Canada, the FDA and other regulatory authorities. A failure to successfully market our product would have a material adverse effect on our revenue.

Our technologies may become obsolete.

The pharmaceutical industry is characterized by rapidly changing markets, technology, emerging industry standards and frequent introduction of new products. The introduction of new products embodying new technologies, including new manufacturing processes and the emergence of new industry standards may render our products obsolete, less competitive or less marketable. The process of developing our products is extremely complex and requires significant continuing development efforts and third party commitments. Our failure to develop new technologies and products and the obsolescence of existing technologies could adversely affect our business.

We may be unable to anticipate changes in our potential customer requirements that could make our existing technology obsolete. Our success will depend, in part, on our ability to continue to enhance our existing technologies, develop new technology that addresses the increasing sophistication and varied needs of the market, and respond to technological advances and emerging industry standards and practices on a timely and cost-effective basis. The development of our proprietary technology entails significant technical and business risks. We may not be successful in using our new technologies or exploiting our niche markets effectively or adapting our businesses to evolving customer or medical requirements or preferences or emerging industry standards.

We are highly dependent on third-party relationships for research and clinical trials.

We rely upon third party relationships for assistance in the conduct of research efforts, pre-clinical development and clinical trials, and manufacturing. In addition, we expect to rely on third parties to seek regulatory approvals for and

to market our product. Although we believe that our collaborative partners will have an economic motivation to commercialize our product included in any collaborative agreement, the amount and timing of resources diverted to these activities generally is expected to be controlled by the third party. Furthermore, if we cannot maintain these relationships, our business may suffer.

We have no operating revenues and a history of losses.

To date, we have not generated sufficient revenues to offset our research and development costs and, accordingly, have not generated positive cash flow or made an operating profit. As of December 31, 2008, we had an accumulated deficit of $102.6 million and we incurred net losses of $17.6 million, $16.0 million, and $14.6 million for the years ended December 31, 2008, 2007, and 2006, respectively. We anticipate that we will continue to incur significant losses during 2009 and in the foreseeable future. We do not expect to reach profitability at least until after successful and profitable commercialization of one or more of our products. Even if one or more of our products are profitably commercialized, the initial losses incurred by us may never be recovered.

We may not be able to obtain third-party reimbursement for the cost of our product.

Uncertainty exists regarding the reimbursement status of newly-approved pharmaceutical products and reimbursement may not be available for REOLYSIN®. Any reimbursements granted may not be maintained or limits on reimbursements available from third-party payors may reduce the demand for, or negatively affect the price of, these products. If REOLYSIN® does not qualify for reimbursement, if reimbursement levels diminish, or if reimbursement is denied, our sales and profitability would be adversely affected.

Third-Party Risk

In the normal course of our business, we have entered into contractual arrangements with third parties which subject us to the risk that such parties may default on their obligations. Oncolytics may be exposed to third party credit risk through our contractual arrangements with our current contract manufacturer, the institutions which operate our clinical trials, or our contract research organizations and other parties. In the event such entities fail to meet their contractual obligations to Oncolytics, such failures could have a material adverse effect on Oncolytics and our operations.

We may need additional financing in the future to fund the research and development of our products and to meet our ongoing capital requirements.

As of December 31, 2008, we had cash and cash equivalents (including short-term investments) of $13.3 million and working capital of approximately $9.0 million. We anticipate that we will need additional financing in the future to fund research and development and to meet our ongoing capital requirements. The amount of future capital requirements will depend on many factors, including continued scientific progress in our drug discovery and development programs, progress in our pre-clinical and clinical evaluation of drug candidates, time and expense associated with filing, prosecuting and enforcing our patent claims and costs associated with obtaining regulatory approvals. In order to meet such capital requirements, we will consider contract fees, collaborative research and development arrangements, and additional public or private financings (including the incurrence of debt and the issuance of additional equity securities) to fund all or a part of particular programs as well as potential partnering or licensing opportunities.

As a result of the weakened global economic situation, Oncolytics, along with all other pharmaceutical research and development entities, may have restricted access to capital, bank debt and equity, and is likely to face increased borrowing costs. Although our business and asset base have not changed, the lending capacity of all financial institutions has diminished and risk premiums have increased. As future operations will be financed out of funds generated from financing activities, our ability to do so is dependent on, among other factors, the overall state of capital markets and investor appetite for investments in the pharmaceutical industry and our securities in particular.

Should we elect to satisfy our cash commitments through the issuance of securities, by way of either private placement or public offering, there can be no assurance that our efforts to raise such funding will be successful, or achieved on terms favourable to us or our existing shareholders. If adequate funds are not available on terms

favorable to us, we may have to reduce substantially or eliminate expenditures for research and development, testing, production and marketing of our proposed product, or obtain funds through arrangements with corporate partners that require us to relinquish rights to certain of our technologies or product. There can be no assurance that we will be able to raise additional capital if our current capital resources are exhausted.

The cost of director and officer liability insurance may increase substantially and may affect our ability to retain quality directors and officers.

We carry liability insurance on behalf of our directors and officers. Given a number of large director and officer liability insurance claims in the U.S. equity markets, director and officer liability insurance has become increasingly more expensive with increased restrictions. Consequently, there is no assurance that we will continue to be offered this insurance or be able to obtain adequate coverage. The inability to acquire the appropriate insurance coverage may limit our ability to attract and maintain directors and officers as required to conduct our business.

We are dependent on our key employees and collaborators.

Our ability to develop the product will depend, to a great extent, on our ability to attract and retain highly qualified scientific personnel and to develop and maintain relationships with leading research institutions. Competition for such personnel and relationships is intense. We are highly dependent on the principal members of our management staff as well as our advisors and collaborators, the loss of whose services might impede the achievement of development objectives. The persons working with us are affected by a number of influences outside of our control. The loss of key employees and/or key collaborators may affect the speed and success of product development.

Our share price may be highly volatile.

Market prices for securities of biotechnology companies generally are volatile. This increases the risk of securities litigation. Factors such as announcements (publicly made or at scientific conferences) of technological innovations, new commercial products, patents, the development of proprietary rights, results of clinical trials, regulatory actions, publications, quarterly financial results, our financial position, public concern over the safety of biotechnology, future sales of shares by us or our current shareholders and other factors could have a significant effect on the market price and volatility of the common shares.

We incur some of our expenses in foreign currencies and therefore we are exposed to foreign currency exchange rate fluctuations.

We incur some of our manufacturing, clinical, collaborative and consulting expenses in foreign currencies, primarily the U.S. dollar and the British pound (“GBP”). We are therefore exposed to foreign currency rate fluctuations. Also, as we expand to other foreign jurisdictions there may be an increase in our foreign exchange exposure.

We earn interest income on our excess cash reserves and are exposed to changes in interest rates.

We invest our excess cash reserves in investment vehicles that provide a rate of return with little risk to principal. As interest rates change the amount of interest income we earn will be directly impacted.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Oncolytics Biotech Inc. was formed under the *Business Corporations Act* (Alberta) on April 2, 1998 as 779738 Alberta Ltd. On April 8, 1998, we changed our name to Oncolytics Biotech Inc.

Our principal executive office is located at 210, 1167 Kensington Cres. NW, Calgary, Alberta, Canada, T2N 1X7, telephone (403) 670-7377. Our agent for service in the U.S. is DL Service, Inc. located at 1420 Fifth Avenue, Suite 3400, Seattle, Washington, 98101, telephone (206) 903-8800.

On July 1, 2008, we completed an internal reorganization to provide additional international flexibility and promote broadened opportunities for Oncolytics. Pursuant to the internal reorganization we transferred certain assets to our wholly-owned subsidiary, Oncolytics Biotech (Barbados) Inc. (“Oncolytics Barbados”), in consideration for additional shares in the capital of Oncolytics Barbados. The transferred assets consisted of: (a) the rights to certain regulatory submissions; (b) certain non-Canadian patents and patent applications; and (c) certain agreements to which we were a party, including, clinical research management agreements, clinical trial agreements, research agreements and manufacturing agreements. We also granted Oncolytics Barbados permission to use certain other intellectual property rights not transferred by us to Oncolytics Barbados. Concurrently with the asset transfer, the Corporation and Oncolytics Barbados entered into a trust agreement pursuant to which we agreed to hold legal title to the transferred assets with beneficial title remaining with Oncolytics Barbados.

As part of the internal reorganization, the Corporation and Oncolytics Barbados also entered into a research and development agreement on July 1, 2008 pursuant to which we agreed to provide certain services to Oncolytics Barbados, including: conducting research and development related to the transferred assets; coordinating clinical trials and the handling of data generated by such trials; pursuing regulatory approvals as required; coordinating the filing, prosecution and maintenance of patent applications and patents; and coordinating the development and implementation of manufacturing processes.

In December 2009, we incorporated a Delaware company, Oncolytics Biotech (U.S.) Inc. As at December 31, 2008, there was no ongoing activity in this subsidiary.

On March 2, 2009 we entered into an agreement to acquire an inactive private company ("PrivateCo"), pursuant to a plan of arrangement under the Business Corporations Act (Alberta) (the "Arrangement"). PrivateCo does not actively carry on any business operations, has accumulated tax losses from its previous development business, and is expected to have approximately $2.3 million in net cash available at the closing of the transaction.

Under the terms of the Arrangement, we will issue common shares of Oncolytics at an exchange ratio calculated based upon an agreed premium to PrivateCo's net cash per share at closing and using an ascribed price per common share of Oncolytics of $1.69 (which is based on the 20 day volume weighted average trading price of Oncolytics shares on the Toronto Stock Exchange up to and including March 2, 2009). Completion of this transaction is subject to a number of conditions including receipt of all necessary shareholder, court and regulatory approvals. The acquisition is expected to close in April 2009.

A description of our principal capital expenditures and divestitures and a description of acquisitions of material assets is found in our MD&A and in the notes to our financial statements included elsewhere in this annual report.

B. Business Overview

Since our inception in April of 1998, Oncolytics Biotech Inc. has been a development stage company and we have focused our research and development efforts on the development of REOLYSIN®, our potential cancer therapeutic. We have not been profitable since our inception and expect to continue to incur substantial losses as we continue research and development efforts. We do not expect to generate significant revenues until, if and when, our cancer product becomes commercially viable.

Our Business

Our potential product for human use, REOLYSIN®, is developed from the reovirus. This virus has been demonstrated to replicate specifically in tumour cells bearing an activated Ras pathway. Activating mutations of Ras occur in approximately 30% of all human tumours directly, but considering its central role in signal transduction, activation of the Ras pathway has been shown to play a role in approximately two-thirds of all tumours.

The functionality of the product is based upon the finding that tumours bearing an activated Ras pathway are deficient in their ability to activate the anti-viral response mediated by the host cellular protein, PKR. Since PKR is responsible for preventing reovirus replication, tumour cells lacking the activity of PKR are susceptible to reovirus infections. As normal cells do not possess Ras activations, these cells are able to thwart reovirus infections by the activity of PKR. In a tumour cell with an activated Ras pathway, reovirus is able to freely replicate and hence kill the host tumour cell. The result of this replication is progeny viruses that are then free to infect surrounding cancer

cells. This cycle of infection, replication and cell death is believed to be repeated until there are no longer any tumour cells carrying an activated Ras pathway available.

The following schematic illustrates the molecular basis of how the reovirus kills cancer cells.

Scientific Background

The Ras protein is a key regulator of cell growth and differentiation. It transmits signals from the cell's surface, via growth factor receptors, to downstream elements, which are in turn relayed to the nucleus. This transmission of signals from the cell surface to the cell's nucleus is collectively referred to as "signal transduction." The transmission of these signals results in cell growth, division, and in some instances cellular differentiation. In normal cells, cell growth occurs only in the presence of factors stimulating the cells to grow. Mutations in Ras itself, or any of the elements along the Ras pathway, often lead to activation of the pathway in the absence of the appropriate growth stimuli, leading to the uncontrolled growth of these cells and ultimately to the development of a cancerous state. In fact, approximately 30% of all cancers are known to be due to mutations in Ras itself. The frequency of these Ras mutations, as well as their etiology in a given tumour is, however, tissue specific. Activating mutations in Ras are found in many types of human malignancies but are highly represented in pancreatic (90%), sporadic colorectal (50%), lung carcinomas (40%), and myeloid leukemia (30%). Because Ras is a regulator of key mitogenic signals, aberrant function of upstream elements such as receptor tyrosine kinases (RTKs) can also result in Ras activation in the absence of mutations in Ras itself. Indeed, over-expression of these RTKs such as HER2/neu/ErbB2 or the epidermal growth factor receptor is common in breast cancer (25-30%), and over-expression of the platelet-derived growth factor receptor (“PDGFR”) is common in glioblastomas and gliomas, all of which are tumour types in which Ras mutations are relatively rare. Although activating mutations of Ras itself are thought to occur in only about 30% of all tumours, it is expected that approximately two-thirds of all tumours have activated Ras signaling pathways as a result of mutations in genes that lie upstream of Ras. With this in mind, Ras becomes a significant therapeutic target in oncology.

All available scientific evidence developed or reviewed by us to date supports the premise that the reovirus only actively infects and replicates in cells with an activated Ras pathway. This naturally occurring virus is believed to cause only mild infections of the respiratory and gastrointestinal tract and in general, reovirus infections in humans are asymptomatic and usually sub-clinical. Research has indicated this virus replicates in, and therefore kills, only cancer cells (i.e. cancer cells with an activated Ras pathway), but does not replicate in normal cells. It has been demonstrated that reovirus replication is restricted in "normal" cells due to the activation of the double stranded RNA-activated protein kinase (“PKR”). PKR is a crucial element in protecting cells from reovirus infection and is

capable of blocking viral protein translation. Activated Ras (or an activated element of the Ras pathway) prevents PKR activation, and thus allows viral replication to ensue only in this subset of cancer cells. To prove that reovirus could be used as a potential cancer therapeutic, a number of animal models were developed. Experiments using this virus to treat mouse tumours, expanded animal models as well as human brain, breast, and prostate tumours implanted in immuno-compromised mice have yielded promising results. In animals where tumour regression was noted, a single injection of reovirus is often enough to cause complete tumour regression. More importantly, it was demonstrated that this treatment is effective in causing tumour regression in immune competent animals. We believe that the nature of this virus, combined with its selective replication makes it an attractive candidate as a cancer therapy.

We also believe that this research may have broad utility in the treatment of tumours with an activated Ras pathway as well as a potential use as an adjuvant therapy following surgical tumour resection or as an adjuvant therapy to conventional chemotherapeutic or radiation therapies.

The Potential Cancer Product

Cancer is a group of related diseases characterized by the aberrant or uncontrolled growth of cells and the spread of these cells to other sites in the body. These cancer cells eventually accumulate and form tumours that can disrupt and impinge on normal tissue and organ function. In many instances, cells from these tumours can break away from the original tumour and travel through the body to form new tumours through a process referred to as metastasis.

Our cancer product is a potential therapeutic for tumours possessing an activated Ras pathway. In tumour cells with this type of activation, the virus is cytotoxic but may have no effect on the surrounding normal tissue. Activating mutations of Ras are believed to account for approximately 30% of all human tumours directly. It is also possible to activate Ras through mutation of proteins that control its activity rather than through direct mutations of Ras itself. This suggests that approximately two thirds of tumours may respond to this treatment.

Clinical Trial Program

We are directing a broad clinical trial program with the objective of developing REOLYSIN® as a human cancer therapeutic. The clinical program includes clinical trials which we sponsor directly along with clinical trials that are being sponsored by the U.S. National Cancer Institute (“NCI”). Our clinical trial program includes human trials using REOLYSIN® alone, and in combination with radiation and chemotherapy, and delivered via local administration and/or intravenous administration.

Clinical Trial Chart

The following chart shows the clinical trials that we have sponsored:

Trial number	Delivery Method	Trial Program and Cancer Indication	Location	Status
REO 016	Intravenous administration in combination with paclitaxel and carboplatin	Phase II non-small cell lung with K-RAS or EGFR-activated tumours	United States	Approved to Commence
REO 015	Intravenous administration in combination with paclitaxel and carboplatin	Phase II head and neck	United States	Ongoing
REO 014	Intravenous administration monotherapy	Phase II sarcoma	United States	Ongoing

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Trial number	Delivery Method	Trial Program and Cancer Indication	Location	Status
REO 016	Intravenous administration in combination with paclitaxel and carboplatin	Phase II non-small cell lung with K-RAS or EGFR-activated tumours	United States	Approved to Commence
REO 012	Intravenous administration in combination with cyclophosphamide	Phase I/II pancreatic, lung, ovarian	United Kingdom	Ongoing
REO 011	Intravenous administration in combination with paclitaxel and carboplatin	Phase I/II melanoma, lung, ovarian	United Kingdom	Ongoing
REO 010	Intravenous administration in combination with docetaxel	Phase I/II bladder, prostate, lung, upper gastro-intestinal	United Kingdom	Ongoing
REO 009	Intravenous administration in combination with gemcitabine	Phase I/II pancreatic, lung, ovarian	United Kingdom	Ongoing
REO 008	Local therapy in combination with radiation	Phase II various metastatic tumours, including head & neck	United Kingdom	Ongoing
REO 007	Infusion monotherapy	Phase I/II recurrent malignant gliomas	United States	Ongoing
REO 006	Local therapy in combination with radiation	Phase I various metastatic tumours	United Kingdom	Complete
REO 005	Intravenous administration monotherapy	Phase I various metastatic tumours	United Kingdom	Complete
REO 004	Intravenous administration monotherapy	Phase I various metastatic tumours	United States	Complete
REO 003	Local monotherapy	Phase I recurrent malignant gliomas	Canada	Complete
REO 002	Local monotherapy	T2 prostate cancer	Canada	Complete
REO 001	Local monotherapy	Phase I trial for various subcutaneous tumours	Canada	Complete

Patents and Trade Secrets

The patent positions and proprietary rights of pharmaceutical and biotechnology firms, including us, are generally uncertain and involve complex legal and factual questions. We believe there will continue to be significant litigation in the industry regarding patent and other intellectual property rights.

Currently, we have over 200 patents including 31 U.S. patents. We had over 190 patent applications filed in the U.S., Canada, and other jurisdictions, but we cannot be certain whether any given patent

application filed by us will result in the issuance of a patent or if any given patent issued to us will later be challenged and invalidated. Nor can we be certain whether any given patent that may be issued to us will provide any significant proprietary protection to our product and business.

Litigation or other proceedings may also be necessary to enforce or defend our proprietary rights and patents. To determine who was first to make an invention claimed in a United States patent application or patent and thus be entitled to a patent, the United States Patent and Trademark Office, or USPTO, can declare an interference proceeding. In Europe, patents can be revoked through opposition or nullity proceedings. In the United States patents may be revoked or invalidated in court actions or in re-examination proceedings in the USPTO. Such litigation or proceedings could result in substantial cost or distraction to us, or result in an adverse decision as to our or our licensors' patent applications and patents. We are not currently involved in any interference proceedings, re-examination proceedings, opposition or nullity proceedings or any court actions concerning our patent applications and patents. We may be involved in such proceedings in the future.

Our commercial success depends, in part, on not infringing the patents or proprietary rights of others and not breaching licenses granted to us. Competitors may have filed patent applications and obtained patents and may in the future file patent applications and obtain patents relevant to our product and technologies. We are not aware of competing intellectual property relating to our REOLYSIN® project. While we currently believe that we have the necessary freedom to operate in these areas, there can be no assurance that others will not challenge our position in the future. Litigation to defend our position could be costly and time consuming. We also cannot be certain that we will be successful. We may be required to obtain a license from the prevailing party in order to continue the portion of our business that relates to the proceeding. We may also be required to obtain licenses to other third-party technologies necessary in order to market our products. Such licenses may not be available to us on acceptable terms or on any terms and we may have to discontinue that portion of our business. Any failure to license any technologies required to commercialize our technologies or products at reasonable cost may have a material adverse effect on our business, results of operations, financial condition, cash flow and future prospects. We are not currently involved in any litigation concerning our competitors' patent applications and patents. We may be involved in such litigation in the future.

We also rely on unpatented trade secrets and improvements, unpatented know-how and continuing technological innovation to develop and maintain our competitive position. No assurance can be given that others will not independently develop substantially equivalent proprietary information and techniques, or otherwise gain access to our trade secrets or disclose such technology, or that we can meaningfully protect our rights to our unpatented trade secrets.

We require our employees and consultants to execute confidentiality agreements upon the commencement of employment and consulting relationships with us. These agreements provide that all confidential information developed by or made known to an individual during the course of the employment or consulting relationship generally must be kept confidential. In the case of employees, the agreements provide that all inventions conceived by the individual, while employed by us, relating to our business are our exclusive property. While we have implemented reasonable business measurements to protect confidential information, these agreements may not provide meaningful protection for our trade secrets in the event of unauthorized use or disclosure of such information.

Business Strategy

Our business strategy is to develop and market REOLYSIN® in an effective and timely manner, and access additional technologies at a time and in a manner that we believe is best for our development. We intend to achieve our business strategy by focusing on these key areas:

- Develop REOLYSIN® by continuing to progress the product through our clinical trial program assessing the safety and efficacy in human subjects;
- Establish collaborations with experts to assist us with scientific and clinical developments of this new potential pharmaceutical product;

- Implement strategic alliances with selected pharmaceutical and biotechnology companies and selected laboratories, at a time and in a manner where such alliances may complement and expand our research and development efforts on the product and provide sales and marketing capabilities;
- Utilize our broadening patent base and collaborator network as a mechanism to meet our strategic objectives; and
- Develop relationships with companies that could be instrumental in assisting us to access other innovative therapeutics.

Our business strategy is based on attaining a number of commercial objectives, which, in turn, are supported by a number of product development goals. Our new product development presently being conducted is primarily of a research and development nature. In the context of this Annual Information Form, statements of our "belief" are based primarily upon our results derived to date from our research and development program with animals, and early stage human trials, and upon which we believe that we have a reasonable scientific basis to expect the particular results to occur. It is not possible to predict, based upon studies in animals, or early stage human trials, whether a new therapeutic will ultimately prove to be safe and effective in humans. There are no assurances that the particular result expected by us will occur.

At this time we do not intend to become a fully integrated pharmaceutical company with substantial in-house research and development, marketing and distribution or manufacturing capabilities. We are pursuing a strategy of establishing relationships with larger companies as strategic partners. We intend to partner or joint venture with larger pharmaceutical companies that have existing and relevant marketing capability for our products. It is anticipated that future clinical development into large international or pivotal trials would generally occur in conjunction with a strategic partner or partners, who would contribute expertise and financial assistance. In exchange for certain product rights and commitments to market our products, the strategic partners would be expected to share in gross proceeds from the sale of our product or products and potentially share in various market or manufacturing opportunities. The proceeds generated from partnering or joint venturing projects are expected to be distributed on the basis of relative risk taken and resources contributed by each party to the partnership or joint venture.

Regulatory Requirements

The development of new pharmaceuticals is strongly influenced by a country's regulatory environment. The drug approval process in Canada is regulated by Health Canada. The primary regulatory body in the United States is the FDA and in the UK is the MHRA. Similar processes are conducted in other countries by equivalent regulatory bodies. Regulations in each jurisdiction require the licensing of manufacturing facilities and mandate strict research and product testing standards. Companies must establish the safety and efficacy of their products, comply with current Good Manufacturing Practices and submit marketing materials before being allowed to market pharmaceutical products. While we plan to pursue or support the pursuit of the approval of our product, success in acquiring regulatory approval for any product is not assured.

In order to market our pharmaceutical product in Canada, the United States, Europe and other jurisdictions, we must successfully meet the requirements of those jurisdictions. The requirements of the Appropriate Regulatory Authority will generally include the following stages as part of the regulatory process:

- ***Pre-Pharmacological Studies***- Pre-Pharmacological studies involve extensive testing on laboratory animals to determine if a potential therapeutic product has utility in an *in vivo* disease model and has any adverse toxicology in a disease model.
- ***Investigational New Drug Application*** - An Investigational New Drug ("IND") Submission, or the equivalent, must be submitted to the appropriate regulatory authority prior to conducting Pharmacological Studies.
- ***Pharmacological Studies*** (or Phase I Clinical Trials) - Pharmacological studies are designed to assess the potential harmful or other side effects that an individual receiving the therapeutic compound may

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experience. These studies, usually short in duration, are often conducted with healthy volunteers or actual patients and use up to the maximum expected therapeutic dose.

- ***Therapeutic Studies*** (or Phase II and III Clinical Trials) - Therapeutic studies are designed primarily to determine the appropriate manner for administering a drug to produce a preventive action or a significant beneficial effect against a disease. These studies are conducted using actual patients with the condition that the therapeutic is designed to remedy.
- Prior to initiating these studies, the organization sponsoring the program is required to satisfy a number of requirements via the submission of documentation to support the approval for a clinical trial.
- ***New Drug Submission*** - After all three phases of a clinical trial have been completed, the results are submitted with the original IND Submission to the appropriate regulatory authority for marketing approval. Once marketing approval is granted, the product is approved for commercial sales.

Marketing Approvals

The results of the preclinical and clinical testing, together with manufacturing and controls information, are submitted to regulatory agencies in order to obtain approval to commence commercial sales. In responding to such an application, regulatory agencies may grant marketing approval, request additional information or further research, or deny the application if they determine that the application does not satisfy their regulatory approval criteria. Approval for a pharmaceutical or biologic product may not be granted on a timely basis, if at all, or if granted may not cover all the clinical indications for which approval is sought, or may contain significant limitations in the form of warnings, precautions or contraindications with respect to conditions of use.

Satisfaction of pre-market approval requirements for new drugs and biologics typically takes several years, and the actual time required may vary substantially based upon the type, complexity and novelty of the product or targeted disease. Government regulation may delay or prevent marketing of potential products for a considerable period of time and impose costly procedures upon our activities. Success in early stage clinical trials or with prior versions of products does not assure success in later stage clinical trials. Data obtained from clinical activities are not always conclusive and may be susceptible to varying interpretations that could delay, limit or prevent regulatory approval.

Post-Marketing Regulations

Once approved, regulatory agencies may withdraw the product approval if compliance with pre- and/or post-marketing regulatory standards is not maintained or if problems occur after the product reaches the marketplace. In addition, they may require post-marketing studies, referred to as Phase 4 studies, to monitor the effect of an approved product, and may limit further marketing of the product based on the results of these post-market studies. The FDA and other foreign regulatory agencies have broad post-market regulatory and enforcement powers, including the ability to levy fines and penalties, suspend or delay issuance of approvals, seize or recall products, or withdraw approvals.

Manufacturing Regulations

We use contract toll manufacturers to produce REOLYSIN®. Our toll manufacturers are subject to periodic inspection by the FDA, the United States Drug Enforcement Administration, or DEA, and other domestic and foreign authorities where applicable, and must comply with cGMP regulations. Manufacturers of biologics also must comply with general biological product standards. Failure to comply with the statutory and regulatory requirements subjects the manufacturer to possible legal or regulatory action, such as suspension of manufacturing, seizure of product, or mandatory or voluntary recall of a product. Adverse experiences with the product must be reported to the FDA and foreign agencies and could result in the imposition of market restrictions through labeling changes or in product removal. Product approvals may be withdrawn if compliance with regulatory requirements is not maintained or if problems concerning safety or efficacy of the product occur following approval.

Advertising and Promotion Regulations

With respect to both pre- and post-market product advertising and promotion, the FDA and similar foreign agencies impose a number of complex regulations on entities that advertise and promote pharmaceuticals and biologics,

which include, among other things, standards and regulations relating to direct-to-consumer advertising, off-label promotion, industry sponsored scientific and educational activities, and promotional activities involving the Internet. These agencies have very broad enforcement authority and failure to abide by these regulations can result in penalties including the issuance of a warning letter directing the entity to correct deviations from requisite standards, a requirement that future advertising and promotional materials be pre-cleared by the FDA or relevant foreign agencies, and foreign, state and federal civil and criminal investigations and prosecutions.

Other Government Regulations

We are subject to various laws and regulations regarding laboratory practices, the experimental use of animals, and the use and disposal of hazardous or potentially hazardous substances in connection with our research. In each of these areas, as above, the government has broad regulatory and enforcement powers, including the ability to levy fines and civil penalties, suspend or delay issuance of approvals, seize or recall products, and withdraw approvals, any one or more of which could have a material adverse effect upon us.

Market and Competition

According to estimates for 2008 from the American Cancer Society, 1.4 million Americans are expected to be diagnosed with cancer in the year, and 565,650 Americans are forecast to die of cancer. In the United States cancer accounts for 25% of all deaths, second only to heart disease. In the United States, the relative lifetime risk of a male developing cancer is 1 in 2, while for women, this risk is 1 in 3.

The costs of this disease state are also significant. In the United States, the National Institute of Health estimates that the overall annual costs for cancer treatment are $206.3 billion. Of this figure, $78.2 billion can be attributed to direct patient costs.

It has been estimated that approximately 30% of all tumours are a result of activating mutations of Ras itself. Since Ras can be activated by mechanisms other than direct mutations it is believed that the number of tumours with activated Ras (either through direct activating mutation or mutation or over-expression of elements upstream of Ras) is approximately two thirds.

We face substantial competition in the development of products for cancer and other diseases. This competition from other manufacturers of the same types of products and from manufacturers of different types of products designed for the same uses is expected to continue in both U.S. and international markets. Oncolytic virus therapies, our primary focus area, is rapidly evolving areas in the biotechnology industry and are expected to undergo many changes in the coming years as a result of technological advances. We are currently aware of a number of groups that are developing oncolytic virus therapies including early-stage and established biotechnology companies, pharmaceutical companies, academic institutions, government agencies and research institutions. We face competition from these groups in areas such as recruiting employees, acquiring technologies that might enhance our ability to commercialize products, establishing relationships with certain research and academic institutions, enrolling patients in clinical trials and seeking program partnerships and collaborations with larger pharmaceutical companies. It is possible that our competitors could achieve earlier market commercialization, could have superior patent protection, or could have safer, more effective or more cost-effective products. These factors could render our potential products less competitive, which could adversely affect our business.

Product Marketing Strategy

The markets for the cancer product being developed by us may be large and could require substantial sales and marketing capability. Before or upon successful completion of the development of a cancer product, we intend to enter into one or more strategic

partnerships or other collaborative arrangements with a pharmaceutical company or other company with marketing and distribution expertise to address this need. If necessary, we will establish arrangements with various partners for different geographical areas or specific applications at various times in the development process. Our management and consultants have relevant experience with the partnering process.

Seasonality of Business

Our results of operations have not been materially impacted by seasonality.

C. Organizational Structure

On December 31, 2008, we had two wholly-owned subsidiaries; Oncolytics Biotech (Barbados) Inc., a Barbados Company, and Oncolytics Biotech (US) Inc., a Delaware corporation.

D. Property, Plants and Equipment

We currently lease our head office in Calgary, Alberta, Canada. We do not own or lease any other office space, manufacturing facilities or equipment and do not have any current material plans to construct or acquire any facilities.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion contains forward-looking statements, including our belief as to the potential of REOLYSIN®, a therapeutic reovirus, as a cancer therapeutic and our expectations as to the success of our research and development and manufacturing programs in 2009 and beyond, future financial position, business strategy and plans for future operations, and statements that are not historical facts, involve known and unknown risks and uncertainties, which could cause our actual results to differ materially from those in the forward-looking statements. See *"Cautionary Note Regarding Forward-Looking Statements"*.

With respect to the forward-looking statements made within this MD&A, we have made numerous assumptions regarding among other things: our ability to obtain financing to fund our development program, our ability to receive regulatory approval to commence enrollment in our clinical trial program, the final results of our co-therapy clinical trials, our ability to maintain our supply of REOLYSIN® and future expense levels being within our current expectations. Investors are cautioned against placing undue reliance on forward-looking statements. We do not undertake to update these forward-looking statements except as required by applicable law.

A. OPERATING RESULTS

REOLYSIN(r) DEVELOPMENT UPDATE FOR 2008

Oncolytics Biotech Inc. is a Development Stage Company

Since our inception in April of 1998, Oncolytics Biotech® Inc. has been a development stage company and we have focused our research and development efforts on the development of REOLYSIN®, our potential cancer therapeutic. We have not been profitable since our inception and expect to continue to incur substantial losses as we continue research and development efforts. We do not expect to generate significant revenues until, if and when, our cancer product becomes commercially viable.

We have been developing our product REOLYSIN® as a possible cancer therapy since our inception in 1998. Our goal each year is to advance REOLYSIN® through the various steps and stages of development required for potential pharmaceutical products. In order to achieve this goal, we believe that we have to actively manage the development of our clinical trial program, our pre-clinical and collaborative programs, our manufacturing process and REOLYSIN® supply, and our intellectual property.

Clinical Trial Program

We began 2008 with eight active clinical trials of which seven were being conducted by us and one was being sponsored by the U.S. National Cancer Institute (the "NCI"). During the year, we received approval to commence

another three clinical trials and the NCI received approval to commence one additional clinical trial study. We announced positive clinical trial results from three of our co-therapy clinical trials. We ended 2008 with 12 clinical trials, either underway or approved to commence, two of which are sponsored by the NCI, and we announced that we will be pursuing a Phase II/III, randomized trial using the combination of REOLYSIN® with paclitaxel and carboplatin in patients with head and neck cancers.

Clinical Trial – 2008 Results

U.K. Phase I/II Combination REOLYSIN® and Paclitaxel/Carboplatin Clinical Trial

In 2008 we announced positive interim clinical trial results from our U.K. co-therapy trial with paclitaxel and carboplatin and completed patient enrollment in this trial. The interim results were presented as an abstract entitled "Phase I Trial of Oncolytic Reovirus (REOLYSIN®) in Combination with Carboplatin/Paclitaxel in Patients with Advanced Solid Cancers" in the November/December issue of the Journal of Immunotherapy, the official journal of the International Society for Biological Therapy of Cancer (iSBTc). The results in this abstract were further updated with a poster presentation that occurred during the iSBTc annual meeting in November.

The results of the fourteen patients treated as reported by the principal investigator were:

Primary Tumour	**REOLYSIN Dose $TCID_{50}$**	**Cycles**	**Best Response**
Phase I patients			
Melanoma	$3x10^9$	2	PD
Squamous cell carcinoma (SCC) head & neck			
	$3x10^9$	8	Clinical CR, SD per CT scan
Peritoneal	$3x10^9$	3	PD
Melanoma (eye)	$1x10^{10}$	2	PD
Head & neck	$1x10^{10}$	8	PR
Nasopharynx	$1x10^{10}$	8	PR
Endometrial	$3x10^{10}$	8	SD
SCC nasopharynx	$3x10^{10}$	1	PD
Head & neck (laryngeal carcinoma)			
	$3x10^{10}$	2	SD
Phase II patients			
Nasopharynx	$3x10^{10}$	8*	SD
Nasopharynx with liver mets	$3x10^{10}$	7*	PR
SCC nasolabial fold	$3x10^{10}$	5*	SD
SCC nasopharynx	$3x10^{10}$	4*	PR
SCC nasopharynx	$3x10^{10}$	2*	PD

*still on study. CR=complete response, PR=partial response, SD=stable disease, PD=progressive disease

U.K. Phase I/II Combination REOLYSIN® and Docetaxel Clinical Trial

In 2008, we announced positive interim clinical trial results from our U.K. co-therapy trial with Docetaxel and completed patient enrollment in this trial. The results were presented as an abstract entitled “A Phase I Study to Evaluate Systemic Wild-Type Reovirus (REOLYSIN®) in Combination with Docetaxel in Patients with Advanced Malignancies” in the November/December issue of the Journal of Immunotherapy. The principal investigator for the trial is Professor Hardev Pandha of the Royal Surrey County Hospital, U.K. The results of this abstract were further updated at the iSBTc annual meeting. The results of the fourteen patients treated as reported by the principal investigator were:

Primary Tumour	**REOLYSIN Dose**	**Cycles**	**Best Response**
Breast	**$TCID_{50}$** $1x10^{10}$	8	PR
			CR in liver
		20	

Primary Tumour	REOLYSIN Dose	Cycles	Best Response
	$TCID_{50}$		
Gastric	$3x10^{10}$	8	PR
Mesothelioma	$1x10^{10}$	6	32% reduction in lymph nodes Minor response
Prostate	$3x10^{9}$	6	23% reduction in lymph nodes SD on scans
Squamous Cell Carcinoma	$3x10^{9}$	3	30% reduction in PSA Minor response
Head and Neck			26% reduction in lymph node
Unknown	$3x10^{9}$	6	SD
Pancreas	$3x10^{10}$	6*	SD
Prostate	$3x10^{10}$	5*	SD
Prostate	$3x10^{10}$	5	SD
Melanoma	$1x10^{10}$	4	SD
Pancreas	$3x10^{10}$	2	SD, but progressed clinically

*patients still on study. CR=complete response, PR=partial response, SD=stable disease, PD=progressive disease

The researchers concluded that REOLYSIN® can be safely combined with docetaxel, that there was objective radiological evidence of anticancer activity and that Phase II studies with this combination are justified. Any significant toxicities observed were consistent with those expected with docetaxel alone.

U.S. Phase II Sarcoma Clinical Trial

At the beginning of 2008, we announced that we had met the initial criteria to proceed to full enrolment in our U.S. Phase II clinical trial to evaluate the intravenous administration of REOLYSIN® in patients with various sarcomas that have metastasized to the lung.

In order to proceed to full enrolment of 52 patients, we had to demonstrate that at least one patient in the first 38 patients treated experienced a complete or partial response, or stable disease for greater than six months. The third patient treated in this study demonstrated to have stable disease by RECIST criteria for more than six months as measured by CT scan. A PET scan taken at the same time showed that any residual mass was metabolically inert.

Later in June 2008, during the American Society of Clinical Oncology (“ASCO”) annual meeting, we announced further interim results in a presentation, entitled “A Phase II Study of Intravenous REOLYSIN (Wild-type Reovirus) in the Treatment of Patients with Bone and Soft Tissue Sarcomas Metastatic to the Lung”. The presentation was delivered by Dr. Monica Mita, the study principal investigator and her team at the Institute of Drug Development (IDD), the Cancer Therapy and Research Center at the University of Texas Health Science Center, (UTHSC), San Antonio, Texas.

The interim results presented, demonstrated that the treatment had been well tolerated, with 8 of 16 evaluable patients experiencing stable disease for periods ranging from two to more than twelve, 28-day cycles.

In December 2008, we determined that we had exceeded the primary statistical endpoint in this clinical trial. To meet this primary statistical endpoint, at least three out of 52 patients had to experience stabilization of disease or better for more than six months. Of the 33 evaluable patients treated as of the end of 2008, five experienced stable disease for periods greater than six months, including one patient who has maintained stable disease for more than 16 months. An additional 10 patients have experienced stable disease for periods ranging from three to six cycles (cycle = 28 days). At this time, twelve patients were continuing on study, including the five patients who had been stable for more than six months.

Tumour Type	**Months on Study**	**Best Response**
Synovial sarcoma	16*	SD
Ewing's sarcoma	9*	SD
Osteosarcoma	9*	SD (tumour resection after cycle 4)
Chordoma	6*	SD
Unspecified Spindle Cell	6*	SD

*patients still on study SD = stable disease

Clinical Trials – Approved to Commence in 2008

U.S. Phase II Combination REOLYSIN® Paclitaxel and Carboplatin Clinical Trial for Non-Small Cell Lung Cancer

In 2008, following a U.S. Food and Drug Administration ("FDA") review, we initiated a U.S. Phase II clinical trial using intravenous administration of REOLYSIN® in combination with paclitaxel and carboplatin in patients with non-small cell lung cancer ("NSCLC") with K-RAS or EGFR-activated tumours.

This trial is a single arm, single -stage, open-label, Phase II study of REOLYSIN® given intravenously with paclitaxel and carboplatin every 3 weeks. Patients will receive four to six cycles of paclitaxel and carboplatin in conjunction with REOLYSIN®, at which time REOLYSIN® may be continued as a monotherapy. It is anticipated that up to 36 patients will be treated in this trial. Eligible patients include those with metastatic or recurrent NSCLC with K-RAS or EGFR-activated tumours, who have not received chemotherapy treatment for their metastatic or recurrent disease. Patients must have demonstrated mutations in K-RAS or EGFR, or EGFR gene amplification in their tumours (metastatic or primary) in order to qualify for the trial.

The primary objectives of this trial are to determine the objective response rate of REOLYSIN® in combination with paclitaxel and carboplatin in patients with metastatic or recurrent NSCLC with K-RAS or EGFR-activated tumours, and to measure progression-free survival at 6 months. The secondary objectives are to determine the median duration of progression-free survival and the median to one year survival of patients, and to evaluate the safety and tolerability of REOLYSIN® in combination with paclitaxel and carboplatin in this patient population.

Clinical Trials – NCI

NCI Sponsored Phase I/II Ovarian Cancer Clinical Trial

In 2008, the NCI commenced enrollment in a Phase I/II ovarian cancer trial. This Phase I/II clinical trial is for patients with metastatic ovarian, peritoneal or fallopian tube cancers using concurrent systemic and intraperitoneal administration of REOLYSIN®. This trial is being carried out under our Clinical Trials Agreement with the NCI requiring us to provide clinical supplies of REOLYSIN®. It is initially being carried out at The Ohio State University Comprehensive Cancer Center, is expected to enroll up to 70 patients with metastatic ovarian, peritoneal or fallopian tube cancers. These cancer indications were selected after comprehensive preclinical studies carried out by the NCI indicated the reovirus can kill ovarian cancer cells.

NCI Sponsored Phase II Metastatic Melanoma Clinical Trial

In 2008, the NCI began enrolment in a Phase II clinical trial for patients with metastatic melanoma using systemic administration of REOLYSIN®. The trial is being carried out by the Mayo Phase 2 Consortium under our Clinical Trials Agreement with the NCI

requiring us to provide clinical supplies of REOLYSIN®. The Principal Investigator is Dr. Evanthia Galanis of the Mayo Clinic Cancer Center.

The primary objectives of the study are to assess the antitumour effects of REOLYSIN® in patients with metastatic malignant melanoma, as well as the safety profile of REOLYSIN®. Secondary objectives include assessment of progression free survival and overall survival. Patients will receive systemic administration of REOLYSIN® at a dose of $3x10^{10}$ $TCID_{50}$ per day on days 1-5 of each 28 day cycle, and patients may receive up to 12 cycles of treatment. The trial is expected to enroll up to 47 patients with metastatic melanoma.

Pre-Clinical and Collaborative Program

Publications

During 2008, the following articles were published:

Title	Senior Author	Publication	Description/Conclusion
Cyclophosphamide Facilitates Antitumor Efficacy against Subcutaneous Tumors following Intravenous Delivery of Reovirus	Dr. Richard Vile	Clinical Cancer Research (online issue January 1, 2008)	After testing various doses and dosing regimens of reovirus and cyclophosphamide in mice, a metronomic dosing regimen was developed that resulted in increased survival, high levels of reovirus recovered from regressing tumours, levels of neutralizing antibodies that were protective, and only very mild toxicities. The data support investigation in human clinical trials of the use of cyclophosphamide prior to systemic reovirus administration to modulate, but not ablate, the immune system.
Enhanced In vitro and In vivo Cytotoxicity of Combined Reovirus and Radiotherapy	Dr. Kevin Harrington	Clinical Cancer Research (online issue February 1, 2008)	The effect of different schedules of reovirus and radiotherapy on viral replication and cytotoxicity was tested *in vitro* and the combination was assessed in three tumour models *in vivo*. The results demonstrated that combining reovirus and radiotherapy significantly increased cancer cell killing both *in vitro* and *in vivo*, particularly in cell lines with moderate susceptibility to reovirus alone.
Characterization of the Adaptive and Innate Immune Response to Intravenous Oncolytic Reovirus (Dearing Type 3) during a Phase I Clinical Trial	Dr. Kevin Harrington	Gene Therapy (online issue March 6, 2008)	The results suggest that reovirus may stimulate the immune system to mount a dynamic immune response to the presence of virus, increasing the potential to significantly enhance the efficacy of oncolytic virotherapy. About a third of those patients also showed increases in NK (natural killer) cells following therapy. The data support the development of interventions aimed at blunting the patient's immune response, although preclinical data also suggest that maintaining a baseline level is necessary to restrict systemic spread and toxicity of the virus.
Inflammatory Tumour Cell Killing by Oncolytic Reovirus for the Treatment of Melanoma	Prof. Alan Melcher et al.	Gene Therapy (online issue April 10, 2008)	The investigators showed that reovirus effectively kills and replicates in both human melanoma cell lines and freshly resected tumour. They demonstrated that reovirus melanoma killing is more potent than, and distinct from, chemotherapy or radiotherapy-induced cell death. They concluded that reovirus is suitable for clinical testing in melanoma.
Reovirus Activates Human Dendritic Cells to Promote Innate Antitumor Immunity	Prof. Alan Melcher et al.	Journal of Immunology (online issue May 1, 2008)	The researchers studied the ability of reovirus to activate human dendritic cells ("DC"), key regulators of both innate and adaptive immune

responses. The data demonstrated that reovirus directly activates human DC, which in turn stimulate innate killing of cancer cells by natural killer (“NK”) and T cells,

Title	Senior Author	Publication	Description/Conclusion
			suggesting a novel potential role for T cells in oncolytic virus-induced local tumour cell death. Combined with the virus's ability to directly kill cancer cells, the researchers concluded that reovirus recognition by DC may enhance the efficacy of reovirus as a therapeutic agent.

Presentations

During 2008, the following presentations were made:

Title	Presenter	Location	Description/Conclusion
			The poster covered preclinical work using reovirus in combination with radiation in mice implanted with pediatric rhabdomyosarcoma and Ewing's sarcoma tumours. The results demonstrated that the combination of reovirus and radiation significantly enhanced efficacy compared to either treatment alone in terms of tumour regression and event-free survival.
Targeting Multiple Myeloma with Oncolytic Viral Therapy	Dr. Chandini Thirukkumaran	AACR	The presentation covered preclinical work using reovirus as a purging agent during autologous (harvested from the patient themselves) hematopoietic stem cell transplants for multiple myeloma. The results demonstrated that up to 70% of multiple myeloma cell lines tested showed reovirus sensitivity and reovirus induced cell death mediated through apoptosis. The investigators concluded that this preclinical data supports initiating a Phase I purging trial using reovirus against multiple myeloma.
Synergistic Anti-Tumour Activity of Oncolytic Reovirus and Docetaxel in a PC-3 Prostate Cancer Mouse Model	Prof. Hardev Pandha	iSBTc Annual Meeting in San Diego	The presentation covered preclinical research, which demonstrated that combining reovirus and docetaxel treatment resulted in markedly reduced tumour growth compared to single agent treatments.
Systemic Administration of Reolysin Inhibits Growth of Human Sarcoma Xenografts	Dr. Anders Kolb	Connective Tissue Oncology Society ("CTOS") meeting in	Mice were engrafted with a variety of sarcoma cell lines including rhabdomyosarcoma, Ewing's sarcoma, synovial sarcoma and

Alone and in Combination with Cisplatin and Radiation	London	osteosarcoma, then treated with REOLYSIN® or REOLYSIN® in combination with either cisplatin or radiation. The researchers concluded that in all tumour lines evaluated, REOLYSIN® exhibits significant antitumour activity, including a complete response in a rhabdomyosarcoma line. The combination of

Title	Presenter	Location	Description/Conclusion
			REOLYSIN® and radiation is effective in inhibiting the growth of rhabdomyosarcoma and Ewing's sarcoma xenografts, and the combination of REOLYSIN® and cisplatin is effective in Ewing's sarcoma, osteosarcoma and synovial sarcoma xenografts.
In Vivo Efficacy and Replication Dynamics of Intravenously Administered Oncolytic Reovirus in Nude Mice Bearing Human Melanoma Xenografts	Dr. Shizuko Sei et al	EORTC-AACR-NCI Symposium on Molecular Targets and Cancer Therapeutics held in Geneva	Mice bearing human melanoma tumours each received a single injection of reovirus at various dose levels, administered intravenously. Dose-dependent tumour growth delay was observed in the treated animals, with the effect most pronounced for the first seven days. Reovirus was demonstrated to be in all biopsied tumours and the level consistently increased from day 2 through day 7 in all dose groups. The investigators concluded that a single IV administration of reovirus led to substantial tumour growth delay in melanoma-bearing nude mice, and the extent of acute phase reovirus replication in tumour tissues appeared to predict the subsequent tumour response. This proof-of-principle study demonstrates that systemically administered reovirus can reach and replicate in distant tumour tissues, resulting in virus-induced oncolysis.
Synergistic Anti-Tumour Activity of Oncolytic Reovirus and Cisplatin in a B16.F10 Mouse Melanoma Model	Prof. Hardev Pandha	EORTC-AACR-NCI Symposium on Molecular Targets and Cancer Therapeutics held in Geneva	In the study, the researchers examined the *in vitro* and *in vivo* oncolytic activity of reovirus in combination with cisplatin against a mouse melanoma cell line. The researchers demonstrated that the combined therapy results in significantly increased cell death *in vitro* compared to either agent alone. In the mouse model, combined therapy suppressed tumour growth and significantly prolonged median survival time. The researchers concluded that the addition of chemotherapeutic agents can significantly enhance the anti-tumour efficacy of reovirus therapy and justify formal clinical evaluation.

Manufacturing and Process Development

In 2008, we completed the technology transfer of our 40-litre production process to our manufacturer in the U.S. and commenced production at the 40-litre scale under current Good Manufacturing Practices ("cGMP") conditions for use in our clinical trials. These 40-litre production runs are expected to provide us with sufficient product to supply the remainder of our existing clinical trial program.

Our process development activity in 2008 mainly focused on scale up from 40-litre to 100-litre production runs. We successfully completed this scale up work in the fourth quarter of 2008 allowing us to manufacture at a 100-litre

scale under cGMP with the potential to produce more than one million doses per year for intravenous use. In addition to these scale up studies we also continued work on lyophilization and process validation.

Intellectual Property

In 2008, five U.S. patents were issued. We have been issued over 200 patents including 31 U.S. and nine Canadian patents as well as issuances in other jurisdictions. We also have over 180 patent applications filed in the U.S., Canada and other jurisdictions.

Financing Activity

In 2008, pursuant to a public offering under our Canadian base shelf prospectus and a U.S. registration statement on Form F-10, we issued 2,650,000 units for net cash proceeds of $3,421,309. Each unit consisted of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to acquire one common share upon payment of $1.80 until December 5, 2011, subject to acceleration of the expiry date under certain circumstances. The net proceeds from this offering will be used for our clinical trial program manufacturing activities in support of the clinical trial program and for general corporate purposes.

Financial Impact

We estimated at the beginning of 2008 that our average monthly cash usage would be approximately $1,660,000 for total cash usage of $19,920,000 in 2008. In the third quarter of 2008, we updated our estimate of average monthly cash usage for 2008 between $1,400,000 to $1,500,000 per month for total cash usage of $16,800,000 to $18,000,000 for the year. Our cash usage for the year ended December 31, 2008 was $15,288,632 from operating activities which includes our intellectual property expenditures which is lower than our expected monthly average. A further $111,577 was expended on property and equipment. Our net loss for the year ending December 31, 2008 was $17,550,204.

Cash Resources

We exited 2008 with cash resources totaling $13,276,529 (see *"Liquidity and Capital Resources").*

REOLYSIN(r) DEVELOPMENT FOR 2009

We have set out our planned development for REOLYSIN® in 2009 into separate levels of activity. Our planned base level of activity in 2009 is to complete patient enrollment in all of those trials that were enrolling at the end of 2008. As well, we expect that our U.S. Phase II non-small cell lung cancer trial will commence enrollment in 2009 and enroll patients in 2010. Our base level manufacturing program focuses on filling, labeling, packaging and shipping our product to the various clinical sites as required, performing process

validation studies and completing the lyophilization studies that were in process at the end of 2008. Finally, our collaboration program in 2009 will finish the studies we had in place at the end of 2008.

We estimate that the cash requirements to fund our base level of activity for 2009 will be approximately $11,000,000. (see *"Liquidity and Capital Resources"*).

In addition to our base level of activity, we are preparing to expand our clinical trial program to include studies that could be used to obtain regulatory approval allowing us to register and sell REOLYSIN® (our "Path to Registration"). We expect to expand our clinical trial program by applying for approval to commence a Phase III randomized clinical trial in the U.S. with REOLYSIN® in combination with paclitaxel and carboplatin for treatment of head and neck cancer. We may also apply for a special protocol assessment ("SPA") or a Phase III pivotal trial. Expanding our clinical trial program to include our Path to Registration, will require us to produce additional REOLYSIN® as well as prepare for the registration of our manufacturing process. The cost of our Path to Registration will ultimately be a function of the feedback we receive from the FDA.

Recent 2009 Progress

On March 2, 2009 we entered into an agreement to acquire an inactive private company ("PrivateCo"), pursuant to a plan of arrangement under the Business Corporations Act (Alberta) (the "Arrangement"). PrivateCo does not actively carry on any business operations, has accumulated tax losses from its previous development business, and is expected to have approximately $2.3 million in net cash available at the closing of the transaction.

Under the terms of the Arrangement, we will issue common shares of Oncolytics at an exchange ratio calculated based upon an agreed premium to PrivateCo's net cash per share at closing and using an ascribed price per common share of Oncolytics of $1.69 (which is based on the 20 day volume weighted average trading price of Oncolytics shares on the Toronto Stock Exchange up to and including March 2, 2009). Completion of this transaction is subject to a number of conditions including receipt of all necessary shareholder, court and regulatory approvals. The acquisition is expected to close in April 2009.

In February 2009, we had our End of Phase II meeting with the FDA and we are now proceeding with plans for a Phase III study of REOLYSIN® for the treatment of patients with head and neck cancer. This protocol may be submitted to the FDA for review under the SPA program.

On January 27, 2009, we announced that patient enrolment had begun in a U.K. translational clinical trial investigating intravenous administration of REOLYSIN® in patients with metastatic colorectal cancer prior to surgical resection of liver metastases. The principal investigator is Professor Alan Melcher of St. James’s University Hospital and we are responsible only for the supply of REOLYSIN®.

This trial is an open-label, non-randomized, single centre study of REOLYSIN® given intravenously to patients for five consecutive days in advance of their scheduled operations to remove colorectal cancer deposits metastatic to the liver. Patients will comprise two groups receiving REOLYSIN®, either at an early (21 to 10 days) or late time point (less than 10 days) before surgical resection. After surgery, the tumour and surrounding liver tissue will be assessed for viral status and anti-tumour effects.

The primary objectives of the trial are to assess the presence, replication and anti-cancer effects of reovirus within liver metastases after intravenous administration of REOLYSIN® by examination of the resected tumour. Secondary objectives include assessing the anti-tumour activity and safety profile of REOLYSIN®, and monitoring the humoral and cellular immune response to REOLYSIN®.

Eligible patients include those with histologically proven colorectal cancer, planned for potentially curative surgical resection of liver metastases. Up to 20 patients will receive one cycle of treatment in this trial, with approximately 10 in each of the early and late virus groups.

On February 4, 2009, Oncolytics and the Cancer Therapy & Research Center at The University of Texas Health Science Center in San Antonio, (CTRC at UTHSCSA) announced a broad preclinical and clinical collaboration involving up to five, open-label, Phase 2 studies exploring the use of REOLYSIN® in combination with chemotherapy for various cancer indications. These indications are expected to include melanoma, pancreatic cancer, squamous cell lung, liver and K-RAS mutated colorectal cancers in combination with standard chemotherapeutics. This research program is in addition to Phase 2 trials in sarcoma and refractory head & neck cancers, sponsored by us that are currently underway at this site. This comprehensive research program allows us to explore additional opportunities for REOLYSIN® in cancer treatment, while allowing us to focus our resources on developing our pivotal program.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In preparing our financial statements, we are required to make certain estimates, judgments and assumptions that we believe are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets at the date of the financial statements and the reported amounts of expenses during the periods presented. Significant estimates are used for, but not limited to, the treatment of our research and development expenditures, the assessment of realizable value of long-lived assets, the amortization period of intellectual property and the calculation of stock based compensation.

The significant accounting policies which we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

Research and Development

We early adopted the new Canadian Institute of Chartered Accountants' (the "CICA") Handbook Section 3064 *"Goodwill and Intangible Assets"* ("Section 3064"). See "Adoption of New Accounting Standards".Despite the early adoption of 3064, our research and development costs continue to be expensed as incurred. Under Section 3064, development costs should only be capitalized if all the criteria below are met:

1. The technical feasibility of completing the intangible asset so that it will be available for use or sale.
2. Our intention to complete the intangible asset and use or sell it.
3. Our ability to use or sell the intangible asset.
4. How the intangible asset will generate probable future economic benefits. Among other things, we are able to demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
5. The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
6. Our ability to measure reliably the expenditure attributable to the intangible asset during its development.

Costs incurred for products in clinical trials do not necessarily meet these criteria. We believe that we do not meet all of the above criteria and for this reason, our research and development costs are expensed and not capitalized.

We will monitor our progress against these criteria and will capitalize our development costs once we can conclude we meet the above criteria.

CHANGES IN ACCOUNTING POLICY INCLUDING INITIAL ADOPTION

Adoption of New Accounting Standards

Intangible Assets

On April 1, 2008, we early adopted the new Canadian Institute of Chartered Accountants' (the "CICA") Handbook Section 3064 *"Goodwill and Intangible Assets"*. Pursuant to the transitional provisions set out in Section 3064, we retroactively adopted this standard with restatement.

The adoption of Section 3064 impacted the treatment of our patent costs. Prior to Section 3064, we accounted for our patent costs as an intangible asset under CICA Handbook Section 3450 *"Research and Development Costs"*. Section 3450 allowed us to capitalize our third party legal costs associated with our patent portfolio as a limited-life intangible asset which was then amortized over the estimated useful life of the patents. Section 3064 does not permit the capitalization of these third party legal costs. Consequently, the

third party legal costs previously capitalized as intellectual property are required to be expensed and any previously recorded related amortization charges are to be reversed. The intellectual property costs which remain capitalized and subject to amortization relate to the initial acquisition of our business by SYNSORB Biotech Inc.

In order for us to capitalize our intellectual property expenditures we would be required to demonstrate the same six criteria discussed above under “Research and Development”.

Therefore, all of our future intellectual property expenditures will be expensed as incurred until we meet all of the capitalization criteria set out by Section 3064. We plan to regularly monitor our research and development activity in conjunction with the six criteria to ensure we record our intellectual property expenditures in line with Section 3064.

The impact of the early adoption of Section 3064 on our previously reported consolidated balance sheets is as follows:

	December 31, 2007	December 31, 2006
	$	$
Consolidated Balance Sheet		
Intellectual Property		
Intellectual property, previously reported	5,026,540	5,079,805
Adjustment, adoption of Section 3064	(4,484,290)	(4,176,055)
Intellectual property, restated	542,250	903,750
Deficit		
Deficit, previously reported	(80,522,257)	(65,030,066)
Adjustment, adoption of Section 3064	(4,484,290)	(4,176,055)
Deficit, restated	(85,006,547)	(69,206,121)

The impact of the early adoption of Section 3064 on our previously reported consolidated statements of loss, comprehensive loss and cash flows is as follows:

	Year Ended December 31, 2007	Year Ended December 31, 2006	Cumulative from inception on April 2, 1998 to December 31, 2007	
Consolidated Statements of Loss and Comprehensive Loss	**$**	**$**	**$**	
Net loss and comprehensive loss, previously reported	15,642,191	14,297,524	80,522,257	
Adjustment, adoption of Section 3064	308,235	330,767	4,484,290	
Net loss and comprehensive loss, restated	15,950,426	14,628,291	85,006,547	
Basic and diluted loss per share, previously reported	(0.39)	(0.39)		—
Basic and diluted loss per share, restated	(0.39)	(0.40)		—

	Year Ended December 31, 2007	Year Ended December 31, 2006	Cumulative from inception on April 2, 1998 to December 31, 2007
Consolidated Statements of Cash Flows	**$**	**$**	**$**
Operating activities, previously reported	(13,569,594)	(12,155,372)	(66,551,036)
Adjustment, adoption of Section 3064	(852,498)	(842,610)	(6,365,180)
Operating activities, restated	(14,422,092)	(12,997,982)	(72,916,216)
Investing activities, previously reported	4,678,785	11,894,126	(22,987,619)
Adjustment, adoption of Section 3064	852,498	842,610	6,365,180

Investing activities, restated	5,531,283	12,736,736	(16,622,439)

Capital Disclosures

On January 1, 2008, we adopted the new recommendations of the CICA for disclosure of our objectives, policies and processes for managing capital (CICA Handbook Section 1535), as discussed further in Note 16 to the consolidated financial statements.

Financial Instruments – Disclosures

On January 1, 2008, we adopted the new recommendations of the CICA for disclosures about financial instruments, including disclosures about fair value and the credit, liquidity and market risks associated with financial instruments (CICA Handbook Section 3862), as discussed further in Notes 17 and 18 to the consolidated financial statements.

Financial Instruments – Presentation

On January 1, 2008, we adopted the new recommendations of the CICA for presentation of financial instruments (CICA Handbook Section 3863). Adoption of this standard had no impact on our financial instrument related presentation disclosures.

Future Accounting Changes

International Financial Reporting Standards

In 2006, the CICA announced that accounting standards in Canada will converge with International Financial Reporting Standards ("IFRS"). IFRS uses a conceptual framework similar to Canadian GAAP, but there could be significant differences on recognition, measurement and disclosures that will need to be addressed.

In April 2008, the Accounting Standards Board in Canada published the exposure draft "Adopting IFRSs in Canada". The exposure draft proposes to incorporate IFRS into the CICA Accounting Handbook effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. At this date, publicly accountable enterprises will be required to prepare financial statements in accordance with IFRS on a retrospective basis. The exposure draft makes possible the early adoption of IFRS by Canadian entities.

In June 2008, the Canadian Securities Administrators ("CSA") published a staff notice that stated it is prepared to recommend exemptive relief on a case by case basis to permit a domestic Canadian issuer to prepare its financial statements in accordance with IFRS for a financial period beginning before January 1, 2011. The U.S. Securities and Exchange Commission ("SEC") issued a final rule in January 2008 that would allow some foreign private issuers to use IFRS, without reconciliation to US GAAP, effective for certain 2007 financial statements.

We have commenced the process to transition from current Canadian GAAP to IFRS. Our transition plan, which in certain cases will be in process concurrently as IFRS is applied, includes the following three phases:

- Scoping and diagnostic phase — This phase involves performing a high-level diagnostic assessment to identify key areas that may be impacted by the transition to IFRS. As a result of the diagnostic assessment the potentially affected areas are ranked

as high, medium or low priority.

- Impact analysis, evaluation and design phase — In this phase, each area identified from the scoping and diagnostic phase will be addressed in order of descending priority. This phase involves specification of changes required to existing accounting policies, information systems and business processes, together with an analysis of policy alternatives allowed under IFRS.

- Implementation and review phase — This phase includes execution of changes to information systems and business processes, completing formal authorization processes to approve recommended accounting policy changes and training. At the end of the implementation and review phase we will be able to compile financial statements compliant with IFRS.

In 2008, we finalized the scoping and diagnostic phase of our transition plan through a diagnostic assessment of the potential impact IFRS will have on our accounting policies. Our diagnostic review identified differences and issues that may impact the Company and center primarily upon:

- IFRS 1 – relates to the first time adoption and includes optional exemptions that must be considered.
- Financial statement presentation and certain disclosures.
- Income taxes
- Impairment of long-lived assets including goodwill and intangibles.
- Share-based compensation

These differences exist based on Canadian GAAP and IFRS today. The regulatory bodies that establish Canadian GAAP and IFRS have significant ongoing projects that could affect the ultimate differences that impact our consolidated financial statements in future years.

In 2009, we plan to examine the areas identified by our diagnostic review and commence the impact analysis, evaluation and design phase of our transition plan.

Fair Presentation

We prepare our financial statements in accordance with GAAP. As a result of complying with GAAP, we believe that the following should be mentioned in an effort to understand and fairly present our financial information:

Stock Based Compensation

As required by the fair value based method for measuring stock based compensation, we have chosen to use the Black Scholes Option Pricing Model (“Black Scholes” or the “Model”) to calculate the fair value of our options. Though there are other models available to calculate the option values (for example, the binomial model), Black Scholes is currently widely used and accepted by other publicly traded companies. Therefore, we have concluded that Black Scholes is the appropriate option pricing model to use for our stock options at this time.

Black Scholes uses inputs in its calculation of fair value that requires us to make certain estimates and assumptions. For 2008, we used the following weighted average assumptions:

	2008
Risk-free interest rate	1.85%
Expected hold period to exercise	4.0 years
Volatility in the price of the our shares	56%
Dividend yield	Zero

A change in these estimates and assumptions will impact the value calculated by the Model. For instance, the volatility in the price of our shares is based on the quoted trading price. We assume that weekly trading prices best reflect our trading price volatility. However, an entity can choose between daily, weekly, or monthly trading prices in the volatility calculation.

The Model also uses an expected hold period to exercise in its calculation of fair value. When we are estimating the expected hold period to exercise we take into consideration past history, the current trading price and volatility of our common shares and have concluded that 4.0 years is an appropriate estimate. However, our options have a 10 year life and given the fluctuations in our stock price the expected hold period could be different.

Consequently, in complying with GAAP and selecting what we believe are the most appropriate assumptions under the circumstances, we have recorded non-cash employee stock based compensation expense for the year of $64,039. However, given the above discussion, this expense could have been different and still be in accordance with GAAP.

Warrant Values

Since inception, we have raised cash through the issue of units and the exercise of warrants and options. Each issued unit has consisted of one common share and either one or one half of one common share purchase warrant with each whole warrant exercisable at a specified price for one additional common share for up to 36 months from the issue date. GAAP requires that when recording the issued units, a value should be ascribed to each component of the units based on the component's fair value. The fair value of our common shares is established based on trading on stock exchanges in Canada and the U.S. However, as the warrants do not trade on an exchange, Black Scholes was used to determine the fair value of the warrants. In the event that the total calculated value of each individual component is greater than the price paid for the unit, the value of each component is reduced on a relative basis until the total is equal to the unit's issue price.

For reasons discussed above under "Stock Based Compensation", the Model can produce a wide range of calculated values for our warrants.

Initial Value of Our Intellectual Property

In 1999, we were acquired by SYNSORB Biotech Inc. ("SYNSORB") through the purchase of all of our share capital for $2,500,000. In connection with this acquisition, the basis of accounting for the assets and liabilities was changed to reflect SYNSORB's cost of acquiring these assets and liabilities. This was achieved through the application of "push down" accounting. At the time, our major asset was our intellectual property; therefore the $2,500,000 was allocated to this asset with the corresponding credit to contributed surplus. This accounting treatment, permitted under GAAP, increased the value of our assets and shareholders' equity. As of December 31, 2008, the net book value of our original intellectual property (including the future tax impact) was $180,750. Consequently, without the application of push down accounting the value of our intellectual property and shareholders' equity would be $180,750 lower than presented in the 2008 audited financial statements.

SELECTED ANNUAL INFORMATION

	2008	**2007**	**2006**
	$	**$**	**$**
Revenue	—	—	—
Interest income	519,256	1,211,744	1,233,809
Net loss[2]	17,550,204	15,950,426	14,628,291
Basic and diluted loss per share[2, 3]	0.42	0.39	0.40
Total assets [1, 3]	13,987,195	26,297,567	29,389,637
Total long term financial liabilities [4]	—	—	150,000
Cash dividends declared per share[6]	Nil	Nil	Nil

Notes:

(1) Subsequent to the acquisition of Oncolytics Biotech Inc. by SYNSORB in April 1999, we applied push down accounting.

(2) Included in net loss and net loss per share is stock based compensation expense of $64,039 (2007 – $539,156; 2006 – $403,500).

(3) We issued 2,650,000 common shares for net cash proceeds of $3,421,309 (2007 – 4,660,000 common shares for net cash proceeds of $12,114,394; 2006 – 284,000 common shares for net cash proceeds of $241,400).

(4) The long-term debt recorded represents repayable loans from the Alberta Heritage Foundation. On January 1, 2007, in conjunction with the adoption of the CICA Handbook section 3855 "Financial Instruments", this loan was recorded at fair value.

(5) The net loss and total assets for 2007 and 2006 have been restated to reflect the retroactive adoption of the Canadian Institute of Chartered Accountants ("CICA") Handbook section 3064 "Goodwill and Intangible Assets".

(6) We have not declared or paid any dividends since incorporation.

RESULTS OF OPERATIONS

Net loss for the year ended December 31, 2008 was $17,550,204 compared to $15,950,426 and $14,628,291 for 2007 and 2006, respectively.

Research and Development Expenses ("R&D")

	2008	**2007**	**2006**
	$	**$**	**$**
Clinical trial expenses	**5,797,085**	3,897,235	2,726,331
Manufacturing and related process development expenses	**3,062,951**	4,325,271	4,508,882
Intellectual property expenses	**1,244,388**	1,070,655	843,309
Pre-clinical trial expenses and collaborations[(1)]	**687,679**	822,891	1,127,612
Quebec scientific research and experimental development refund	**(75,833)**	(56,562)	(52,344)
Other R&D expenses	**2,635,605**	2,326,253	2,225,208
Research and development expenses	**13,351,875**	12,385,743	11,378,998

Note: 1) Upon adoption of CICA Handbook Section 3064, intellectual property expenditures are now recorded as an expense for the year.

Clinical Trial Expenses

Clinical trial expenses include those costs associated with our clinical trial program in the U.S. and the U.K. as well as those incurred in the preparation of commencing other clinical trials. Included in clinical trial expenses are direct patient enrollment costs, contract research organization ("CRO") expenses, clinical trial site selection and initiation costs, data management expenses and other costs associated with our clinical trial program.

	2008	**2007**	**2006**
	$	**$**	**$**
Direct clinical trial expenses	**5,639,355**	3,680,730	2,378,211
Other clinical trial expenses	**157,730**	216,505	348,120
Clinical trial expenses	**5,797,085**	3,897,235	2,726,331

Our clinical trial expenses in 2008 were $5,797,085 compared to $3,897,235 and $2,726,331 in 2007 and 2006, respectively. During 2008, our clinical trial program expanded from eight active clinical trials at the beginning of the year to 12 clinical trials by the end of 2008 of which two are sponsored by the NCI. Of the ten clinical trials being conducted by us, nine trials were actively enrolling patients throughout 2008 compared to seven actively enrolling trials in 2007. As well, the patients enrolled in our Phase II clinical trials and those enrolled at the top dose of the dose escalation component of our Phase I trials received more re-treatments in 2008 compared to 2007 and 2006.

In 2007, we incurred direct patient costs in our seven ongoing clinical trials and completed patient enrollment in our Phase Ia/Ib REOLYSIN®/radiation clinical trial. As well, we incurred clinical site start up costs for our four co-therapy trials in the U.K. and our Phase II sarcoma clinical trial in the U.S.

In 2006, we incurred direct patient costs in four ongoing clinical trials along with clinical site start up costs associated with our U.S. recurrent malignant glioma trial and our chemotherapeutic co-therapy and radiation combination clinical trials in the U.K.

We expect our clinical trial expenses related to those clinical trials that were enrolling or approved to commence enrollment in 2008 will decrease in 2009 compared to 2008. We expect to complete enrollment in all of these clinical trials in 2009 except for our Phase II non-small cell lung cancer trial which will enroll into 2010. We believe our clinical program will expand to include a randomized Phase III co-therapy clinical trial for the treatment of head and neck cancers. Any expansion in our clinical trial program may result in an increase in clinical trial expenses in 2009 compared to 2008.

Manufacturing & Related Process Development Expenses ("M&P")

M&P expenses include product manufacturing expenses and process development. Product manufacturing expenses include third party direct manufacturing costs, quality control testing, fill and packaging costs. Process development expenses include costs associated with studies that examine components of our manufacturing process looking for improvements and costs associated with the creation and testing of our master and working viral and cell banks.

	2008	**2007**	**2006**
	$	**$**	**$**
Product manufacturing expenses	**2,774,747**	**3,113,832**	3,050,647
Technology transfer expenses	**—**	**388,673**	457,975
Process development expenses	**288,204**	**822,766**	1,000,260
Manufacturing and related process development expenses	**3,062,951**	**4,325,271**	4,508,882

Our M&P expenses for 2008 were $3,062,951 compared to $4,325,271 and $4,508,882 for 2007 and 2006, respectively. During 2008, we transferred and completed two 40-litre cGMP production runs of REOLYSIN® that are being used to supply our clinical trial program. As well, we incurred costs associated with the fill, packaging, and shipping of these production runs.

Our process development activity in 2008, continued to examine further scale up to the 100-litre level, lyophilization and process validation studies. We completed our 100-litre scale up studies towards the end of 2008.

In 2007, we completed the production runs that had commenced at the end of 2006 and initiated additional production runs to manufacture REOLYSIN® at the 20-litre scale. Also, as a result of the increased viral yields from our process development activity in 2006, we incurred additional vial filling and packaging costs compared to 2006. We incurred technology transfer costs towards the end of 2007 related to the transfer of our 40-litre production process to a second cGMP manufacturer located in the U.S. Our main process development focus in 2007 centered on the scale up of our production process, which included scale up studies at 40-litre and 100-litre levels.

In 2006, we completed the production runs that were ongoing at the end of 2005, providing us with sufficient product to complete our U.K. Phase II combination REOLYSIN®/radiation clinical trial and our existing Phase I clinical trials. At the same time, our process development activity helped improve virus yields from our manufacturing process which we subsequently transferred to our cGMP manufacturer in the U.K. Our process development activity in 2006 included viral yield and scale up studies along with the validation of our fill process.

Our M&P expenses for 2009 will be a function of our ultimate clinical trial program for 2009. We currently have sufficient product to supply the clinical trials that were enrolling in 2008 and our lung cancer trial which is expected to commence enrollment in 2009. Therefore, we expect M&P expenses in 2009 will be lower than 2008. However, if our clinical trial program expands or further process validation studies are required our M&P expenses for 2009 may increase compared to 2008.

Intellectual Property Expenses

Intellectual property expenses include legal and filing fees associated with our patent portfolio.

	2008	2007	2006
	$	$	$
Intellectual property expenses	**1,244,388**	1,070,655	843,309

Our intellectual property expenses for 2008 were $1,244,388 compared to $1,070,655 and $843,309 for 2007 and 2006, respectively. The change in intellectual property expenditures reflects the timing of filing costs associated with our expanded patent base. At the end year, we had been issued over 190 patents including 30 U.S. and nine Canadian patents as well as issuances in other jurisdictions. We also have over 180 patent applications filed in the U.S., Canada and other jurisdictions.

Pre-Clinical Trial and Research Collaboration Expenses

Pre-clinical trial expenses include toxicology studies and are incurred by us in support of expanding our clinical trial program into other indications, drug combinations and jurisdictions. Research collaborations are intended to expand our intellectual property related to reovirus and identify potential licensing opportunities arising from our technology base.

	2008	**2007**	**2006**
	$	**$**	**$**
Research collaboration expenses	**674,275**	**785,760**	1,064,692
Pre-clinical trial expenses	**13,404**	**37,131**	62,920
Pre-clinical trial expenses and research collaborations	**687,679**	**822,891**	1,127,612

In 2008, our research collaboration expenses were $674,275 compared to $785,760 and $1,064,692 in 2007 and 2006, respectively. Our research collaboration activity over the last three years has focused mainly on the interaction of the immune system and the reovirus and the use of the reovirus as a co-therapy with existing chemotherapeutics and radiation. During 2008, we have been reviewing our collaborations and renewing only certain contracts which have resulted in fewer ongoing collaborations compared to 2007 and 2006.

We expect that pre-clinical trial expenses and research collaborations in 2009 will remain consistent with 2008. We expect to complete our ongoing collaborative program carried over from 2008 and will continue to be selective in the types of new collaborations we enter into in 2009.

Other Research and Development Expenses (R&D)

Other R&D expenses include compensation expenses for employees (excluding stock based compensation), consultant fees, travel and other miscellaneous R&D expenses.

	2008	**2007**	**2006**
	$	**$**	**$**
R&D consulting fees	**197,773**	241,811	321,659
R&D salaries and benefits	**1,926,148**	1,713,849	1,548,418
Other	**511,684**	370,593	355,131
Other research and development expenses	**2,635,605**	2,326,253	2,225,208

In 2008, our Other R&D expenses were $2,635,605 compared to $2,326,253 and $2,225,208 for 2007 and 2006, respectively. During 2008, the increase in our R&D salaries and benefits costs was a result of increases in staff and salary levels for 2008 compared to 2007 and 2006. As well, our Other R&D expenses in 2008 increased compared to 2007 and 2006 due to the increased level of travel activity

associated with supporting our clinical trials in the U.S. and the U.K. as well as attending conferences, symposiums and meetings relating to the various presentations that occurred in 2008.

In 2009, we expect that our Other R&D expenses will remain consistent with 2008.

Operating Expenses

	2008	2007	2006
	$	$	$
Public company related expenses	**3,099,583**	2,578,100	2,494,803
Office expenses	**1,211,992**	1,248,095	1,135,341
Operating expenses	**4,311,575**	3,826,195	3,630,144

Public company related expenses include costs associated with investor relations and business development activities, legal and accounting fees, corporate insurance, and transfer agent and other fees relating to our U.S. and Canadian stock listings. In 2008, we incurred public company related expenses of $3,099,583 compared to $2,578,100 and $2,494,803 for 2007 and 2006, respectively. During 2008, our professional fees increased as a result of the expansion of our corporate structure and the establishment of our base shelf prospectus and an increase in our investor relations and business development activities compared to 2007 and 2006.

Office expenses include compensation costs (excluding stock based compensation), office rent, and other office related costs. In 2008, we incurred office expenses of $1,211,992 compared to $1,248,095 and $1,135,341 in 2007 and 2006, respectively. Our office expense activity has remained consistent over the last three years.

Stock Based Compensation

	2008	2007	2006
	$	$	$
Stock based compensation	**64,039**	539,156	403,550

Non-cash stock based compensation recorded for 2008 was $64,309 compared to $539,156 and $403,550 in 2007 and 2006, respectively. Stock based compensation in 2008 was mainly associated with the vesting of previously granted stock options. In 2007 and 2006 there were more options granted compared to 2008.

Commitments

As at December 31, 2008, we are committed to payments totaling $1,511,000 during 2009 for activities related to clinical trial activity and collaborations. All of these committed payments are considered to be part of our normal course of business.

SUMMARY OF QUARTERLY RESULTS

The following unaudited quarterly information is presented in thousands of dollars except for per share amounts:

	2008				2007			
	Dec.	**Sept.**	**June**	**March**	**Dec.**	**Sept.**	**June**	**March**
Revenue	—	—	—	—	—	—	—	—
Interest income	66	98	174	180	265	319	359	268
Net loss [3]	4,760	4,141	5,255	3,394	4,117	3,786	3,837	4,210
Basic and diluted loss per common share[3]	$0.11	$0.09	$0.09	$0.11	$0.10	$0.09	$0.09	$0.11
Total assets[1], [4]	13,987	13,542	19,011	22,854	26,298	29,444	33,269	37,502
Total cash[2], [4]	13,277	12,680	17,930	21,963	25,214	28,191	31,533	35,681
Total long-term debt	—	—	—	—	—	—	—	—
Cash dividends declared[5]	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

(1) Subsequent to the acquisition of Oncolytics Biotech Inc. by SYNSORB in April 1999, we applied push down accounting.

(2) Included in total cash are cash and cash equivalents plus short-term investments.

(3) Included in net loss and loss per common share between December 2008 and January 2007 are quarterly stock based compensation expenses of $9,084, $17,339, $18,023, $19,593 $396,278, $38,909, $82,573, and $21,396, respectively.

(4) We issued 2,650,000 units for net cash proceeds of $3,421,309 during 2008 (2007 – 4,600,000 units for net cash proceeds of $12,063,394).

(5) We have not declared or paid any dividends since incorporation.

FOURTH QUARTER

Statement of loss for the three month period ended December 31, 2008 and 2007

	2008 **$** ***(unaudited)***	**2007** **$** ***(unaudited)***
Expenses		
Research and development expenses	**3,701,280**	2,763,985
Operating expenses	**1,060,746**	1,114,230
Stock based compensation	**9,084**	396,278
Foreign exchange (gain) loss	**(48,224)**	6,033
Amortization – intellectual property	**90,375**	90,375
Amortization – property and equipment	**13,520**	10,654
	4,826,781	4,381,555
Interest income	**(66,312)**	(264,916)
Net loss	**4,760,469**	4,116,639

Fourth Quarter Review of Operations

For the three month period ended December 31, 2008, our net loss was $4,760,469 compared to $4,116,639 for the three month period ended December 31, 2007. The reasons for the decrease are as follows:

Research and Development Expenses ("R&D")

	2008	2007
	$	$
	(unaudited)	*(unaudited)*
Clinical trial expenses	**1,644,934**	913,547
Manufacturing and related process development expenses ("M&P")	**642,308**	778,539
Intellectual property expenses	**309,635**	264,152
Pre-clinical trial expenses and research collaborations	**385,810**	91,446
Other R&D expenses	**718,593**	716,301
Research and development expenses	**3,701,280**	2,763,985

Clinical Trial Expenses

	2008	2007
	$	$
	(unaudited)	*(unaudited)*
Direct clinical trial expenses	**1,620,029**	882,706
Other clinical trial expenses	**24,905**	30,841
Clinical trial expenses	**1,644,934**	913,547

Our clinical trial expenses for the fourth quarter of 2008 were $1,644,934 compared to $913,547 for the fourth quarter of 2007. In the fourth quarter of 2008, we incurred patient enrollment and treatment costs in our nine enrolling clinical trials compared to only seven actively enrolling clinical trials in the third quarter of 2007. As well, the patients enrolled in our Phase II clinical trials and those enrolled at the top dose of the dose escalation component of our Phase I trials received more re-treatments in the fourth quarter of 2008 compared to the fourth quarter of 2007.

Manufacturing & Related Process Development Expenses ("M&P")

	2008	2007
	$	$
	(unaudited)	*(unaudited)*
Product manufacturing expenses	**469,812**	291,280
Technology transfer expenses	**—**	373,715
Process development expenses	**172,496**	113,544
Manufacturing and related process development expenses	**642,308**	778,539

During the fourth quarter of 2008, our M&P expenses were $642,308 compared to $778,539 for the fourth quarter of 2007. In the fourth quarter of 2008 we completed the process of filling and testing the 40-litre production runs that occurred in 2008. As well, we incurred more shipping costs to supply our expanded clinical trial program in the fourth quarter of 2008 compared to the fourth quarter

of 2007. In the fourth quarter of 2007, our M&P activity focused on the transfer of our 40-litre manufacturing process to a second cGMP toll manufacturer in the U.S. along with activity related to the final fill, packaging and testing of the 20-litre production runs that were completed in 2007.

Our process development activity in the fourth quarter of 2008 focused on our lyophilization and process validation studies. In the fourth quarter of 2007 we were focused on scale up studies to 100-litres.

Intellectual Property Expenses

	2008	2007
	$	$
	(unaudited)	*(unaudited)*
Intellectual property expenses	**309,635**	264,152

Our intellectual property expenses for the fourth quarter of 2008 were $309,635 compared to $264,152 in the fourth quarter of 2007. The change in intellectual property expenditures reflects the timing of filing costs associated with our expanded patent base. At the end of the fourth quarter of 2008, we had been issued over 190 patents including 30 U.S. and nine Canadian patents as well as issuances in other jurisdictions. We also have over 180 patent applications filed in the U.S., Canada and other jurisdictions.

Pre-Clinical Trial Expenses and Research Collaboration Expenses

	2008	2007
	$	$
	(unaudited)	*(unaudited)*
Research collaboration expenses	**372,406**	91,446
Pre-clinical trial expenses	**13,404**	—
Pre-clinical trial expenses and research collaborations	**385,810**	91,446

Our pre-clinical trial expenses and research collaborations were $385,810 in the fourth quarter of 2008 compared to $91,446 in the fourth quarter of 2007. During the fourth quarter of 2008 and 2007, our research collaboration activity continued to focus on the interaction of the immune system and the reovirus and the use of the reovirus as a co-therapy with existing chemotherapeutics and radiation. During the fourth quarter of 2008, the number of collaborations increased compared to the fourth quarter of 2007.

Other Research and Development Expenses (R&D)

	2008	2007
	$	$
	(unaudited)	*(unaudited)*
R&D consulting fees	**74,565**	61,768
R&D salaries and benefits	**524,219**	604,140
Quebec scientific research and experimental development refund	**(75,833)**	(40,634)
Other	**195,642**	91,027
Other research and development expenses	**718,593**	716,301

Our other research and development expenses were $718,593 in the fourth quarter of 2008 compared to $716,301 in the fourth quarter of 2007. In the fourth quarter of 2008, our R&D salaries and benefits decreased as we did not pay any annual bonuses. Our Other R&D expenses for the fourth quarter of 2008 increased compared to the fourth quarter of 2007 due to the increased level of travel activity associated with supporting our clinical trials in the U.S. and the U.K. as well as attending conferences, symposiums and meetings relating to the various presentations that occurred in the fourth quarter of 2008.

Operating Expenses

	2008	**2007**
	$	**$**
	(unaudited)	***(unaudited)***
Public company related expenses	**757,268**	708,862
Office expenses	**303,478**	405,368
Operating expenses	**1,060,746**	1,114,230

Our operating expenses in the fourth quarter of 2008 were $1,060,746 compared to $1,114,230 in the fourth quarter of 2007. In the fourth quarter of 2008, we incurred additional professional fees associated with our investor relations and business development activities compared to the fourth quarter of 2007. Our office expenses in the fourth quarter of 2008 decreased as we did not pay any annual bonuses.

Stock Based Compensation

	2008	**2007**
	$	**$**
	(unaudited)	***(unaudited)***
Stock based compensation	**9,084**	396,278

Our non-cash stock based compensation expense recorded in the fourth quarter of 2008 was $9,084 compared to $396,278 for the fourth quarter of 2007. The stock based compensation expense in the fourth quarter of 2008 related to the vesting of previously granted stock options and the granting of options to certain employees. In the fourth quarter of 2007 we granted options to directors, officers and employees.

B. LIQUIDITY AND CAPITAL RESOURCES

Financing Activities

In 2008, pursuant to a public offering under our Canadian base shelf prospectus and a U.S. registration statement on Form F-10, we issued 2,650,000 units for net cash proceeds of $3,421,309. Each unit consisted of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to acquire one common share upon payment of $1.80 until December 5, 2011, subject to acceleration of the expiry date under certain circumstances. The net proceeds from this offering will be used for our clinical trial program manufacturing activities in support of the clinical trial program and for general corporate purposes.

On December 18, 2008, we amended the terms of 320,000 previously issued broker warrants for cash consideration of $41,600. The amendments included adjusting the exercise price from $5.65 to $1.80 and extending the expiry date from December 29, 2008 to December 29, 2009, subject to acceleration of the expiry date in certain circumstances.

In 2007, we issued 4,600,000 units at a price of $3.00 per unit for net cash proceeds of $12,063,394. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant shall entitle the holder thereof to acquire one common share upon payment of $3.50 expiring on February 22, 2010. The net proceeds from this offering were used for our clinical trial program, manufacturing activities in support of the clinical trial program and for general corporate purposes.

As well in 2007, we issued 60,000 common shares for cash proceeds of $51,000 relating to the exercise of stock options. In 2006 we issued 284,000 common shares for cash proceeds of $241,400 relating to the exercise of stock options.

Liquidity

As at December 31, 2008, we had cash and cash equivalents, short-term investments and working capital positions of

	2008	**2007**
	$	**$**
Cash and cash equivalents	**7,429,895**	6,715,096
Short-term investments	**5,846,634**	18,498,733
Working capital position	**9,008,408**	22,732,987

The decrease in our cash and cash equivalent and short term investment positions reflects the cash usage from our operating activities of $15,288,632 along with the cash provided by financing activities of $3,462,909 for the year ending December 31, 2008.

We desire to maintain adequate cash and short-term investment reserves to support our planned activities which include our clinical trial program, product manufacturing, administrative costs, and our intellectual property expansion and protection. To date, we have funded our operations through the issue of additional capital via public and private offerings. Given the ongoing global financial market environment, our ability to continue to raise additional capital through public and private offerings may be impacted. As a result, we have set out our research and development plans for 2009 into various levels to ensure optimal use of our existing resources. We have estimated the cash requirements for our base level of research and development activity will be approximately $11,000,000 in 2009 and we believe we have sufficient cash resources to fund this type of activity into the first quarter of 2010. Factors that will affect our anticipated cash usage and for which additional funding would be required include, but are not limited to, any expansion in our clinical trial program, the timing of patient enrollment in our approved clinical trials, the actual costs incurred to support each clinical trial, the number of treatments each patient will receive, the timing of the NCI's R&D activity, the number and timing of manufacturing runs required to supply our clinical trial program and the cost of each run, and the level of pre-clinical activity undertaken. If we are able to expand our clinical trial program to include a path to registration we will also require additional funding.

We will look at obtaining the required funding in advance of commencing an expanded clinical and manufacturing program. Though we were fortunate to raise funds in December 2008 through a public offering of units we have no assurances that we will be able to continue to do so. Consequently, we will evaluate all types of financing arrangements.

We also want to be in a position to evaluate potential financings and be able to accept appropriate financings when available. As a result, we filed a Canadian base shelf prospectus on June 16, 2008 and on the same date we filed a U.S. registration statement on Form F-10 both of which qualified for distribution up to $150,000,000 of common shares, subscription receipts, warrants, debt securities and/or units. Establishing our base shelf provides us with additional flexibility when seeking additional capital as, under certain circumstances, it shortens the time period to close a financing and is expected to increase the number of potential investors that may be prepared to invest in our company. On December 5, 2008, we closed a public offering of units that was registered for $3,975,000 under this base shelf prospectus and Form F-10 registration statement.

C. Research and development, patents, and licenses , etc.

Please see the disclosure at the beginning of this section for information on the Company's research and development policies.

D. Trend Information

It is important to note that historical patterns of expenditures cannot be taken as an indication of future expenditures. The amount and timing of expenditures and availability of capital resources vary substantially from period to period, depending on the level of research and development activity being undertaken at any one time and the availability of

funding from investors and prospective commercial partners. Over the past three years, our level of expenditures has increased due to our expanded clinical trial and manufacturing programs.

Except as disclosed elsewhere in our annual report, we know of no trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on our liquidity or capital resources or that would cause reported financial information not necessarily to be indicative of future operating results or financial conditions.

E. Off-Balance Sheet Arrangements

As at December 31, 2008, we have not entered into any off-balance sheet arrangements.

F. Contractual Obligations

We have the following contractual obligations as at December 31, 2008:

Contractual Obligations	**Payments Due by Period**				
	Total	**Less than 1 year**	**1 -3 years**	**4 – 5 years**	**After 5 years**
	$	**$**	**$**	**$**	**$**
Alberta Heritage Foundation[1]	150,000	—	—	—	150,000
Capital lease obligations	Nil	—	—	—	—
Operating leases [2]	216,123	89,043	127,080	—	—
Purchase obligations	1,511,000	1,511,000	—	—	—
Other long term obligations	Nil	—	—	—	—
Total contractual obligations	1,877,123	1,600,043	127,080	—	150,000

Note:

(1) Our Alberta Heritage Foundation obligation requires repayments upon the realization of sales (see note 7 of our audited 2008 consolidated financial statements).
(2) Our operating leases are comprised of our office lease and exclude our portion of operating costs.

We intend to fund our capital expenditure requirements and commitments with existing working capital.

G. Safe Harbor

We seek safe harbor for our forward-looking statements contained in Items 5.E and F. See "*Cautionary Note Regarding Forward-Looking Statements"*.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

The following table sets forth the names and municipalities of residence of all our directors and officers as at the date hereof, as well as the positions and offices held by such persons and their principal occupations.

Name and Municipality of Residence	Position with the Corporation	Principal Occupation	Director of the Company Since
Bradley G. Thompson Ph.D[(2)] *Calgary, Alberta*	Chief Executive Officer and Chairman of the Board	Executive Chairman of the Board, President and Chief Executive Officer since April 1999.	April 21, 1999
Douglas A. Ball C.A. *Calgary, Alberta*	Chief Financial Officer and Director	Chief Financial Officer since May 2000. Mr. Ball was Vice President, Finance and Chief Financial Officer of SYNSORB from June 1997 to May 2000. Prior to this, he was the Vice President, Finance and Administration and Chief Financial Officer of ECL Group of Companies Ltd. Mr. Ball held this position from December 1995 until May 1997. Prior to ECL, he was Controller and then Vice President and Controller of Canadian Airlines International Ltd. from June 1993 until August 1995.	April 21, 1999
William A. Cochrane, OC, M.D. [(2),(3)] Calgary, Alberta	Director	President of W.A. Cochrane & Associates, Inc. (a consulting company) since 1989 and Chairman of Resverlogix Corp. (a public biopharmaceutical company), Chairman of QSV Biologics Ltd. (biologics contract manufacturer) and is a director of Sernova Corp., and a former chairman of University Technologies International Inc. (UTI) at the University of Calgary Dr. Cochrane is an Officer of the Order of Canada and a 2002 recipient of the Queens Golden Jubilee Medal. Dr. Cochrane also served as the Deputy Minister of Health Services for the Province of Alberta from 1973 to 1974 and President of the University of Calgary from 1974 to 1978.	October 31, 2002
Matthew C. Coffey Ph.D. *Calgary, Alberta*	Chief Operating Officer	Chief Operating Officer of the Corporation since December 2008. Chief Scientific Officer of the Corporation from December 2004 to December 2008, Vice-President of Product Development from July 1999 to December 2004 and Chief Financial Officer from September 1999 to May 2000.	N/A
George M. Gill, M.D. Washington, D.C.	Senior Vice President, Clinical and Regulatory Affairs	Dr. Gill has been a consultant in clinical research and regulatory affairs to the pharmaceutical and biotechnology industries since he retired from Ligand Pharmaceuticals in 1999. During his 38 years in the industry, he also served in senior executive positions with ICI Pharmaceuticals (now	N/A

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Name and Municipality of Residence	Position with the Corporation	Principal Occupation	Director of the Company Since
		AstraZeneca), Bristol-Myers Squibb, and Hoffmann-La Roche. Dr. Gill holds a B.Sc. in chemistry from Dickinson College in Pennsylvania and an M.D. from the School of Medicine of the University of Pennsylvania in Philadelphia.	
Robert B. Schultz, F.C.A. [(1), (4)] *Toronto, Ontario*	Lead Director	Former Chairman and Director of Rockwater Capital Corporation, formerly McCarvill Corporation (a financial services company) from 2001 to 2007. Chairman and Chief Executive Officer of Merrill Lynch Canada from August 1998 until his retirement on May 1, 2000. Prior to this appointment, Mr. Schultz was Chief Executive Officer at Midland Walwyn since 1990. Since joining the investment industry in 1971, Mr. Schultz has held a variety of senior positions, and has participated on various industry-related boards and committees including Director and Chairman of the Investment Dealers Association of Canada.	June 30, 2000
Fred A. Stewart, Q.C. [(1), (2)] *Calgary, Alberta*	Director	President of Fred Stewart & Associates Inc. (consulting services) since March 1996. Prior to that, Mr. Stewart was associated with a major Alberta law firm. He was a Member of the Alberta Legislative Assembly, and during two terms from 1986-93, he served as Minister of Technology, Research and Telecommunications and Government House Leader. Earlier, Mr. Stewart practiced corporate and commercial law for over 20 years in Calgary in a firm of which he was a founding partner.	August 27, 1999
J. Mark Lievonen C.A. [(3)] *Markham, Ontario*	Director	President of Sanofi Pasteur Limited, a vaccine development, manufacturing and marketing company, since October 1998 and holding various positions with Sanofi Pasteur Limited and its predecessors since 1983. Mr. Lievonen currently serves on a number of industry and community boards and councils including, the Ontario Genomics Institute, the Ontario Institute for Cancer Research, York University, and is a past Chair of BIOTECanada.	April 5, 2004
Karl Mettinger, M.D., Ph.D *Berkeley, CA*	Chief Medical Officer	Dr. Mettinger has been involved in clinical and regulatory affairs with various pharmaceutical companies since 1985. Prior to joining Oncolytics, he was Senior Vice President and Chief Medical Officer with SuperGen Inc. Prior to that, he was Executive Director, Clinical Research at IVAX/Baker Norton, the new drug subsidiary of IVAX Corporation. He began his career in the industry as a Medical Director with KABI in	N/A

Name and Municipality of Residence	Position with the Corporation	Principal Occupation	Director of the Company Since
		Sweden. Dr. Mettinger holds an MD from the University of Lund in Sweden and a PhD (hematology/stroke) from the Karolinska Institute/Karolinska Hospital in Stockholm, Sweden, where he was a physician and an Associate Professor. He has overseen the global development and approval of a number of products including several in oncology.	
Jim Dinning[1] Calgary, Alberta	Director	Chair of Western Financial Group since September 2004. Mr. Dinning was Executive Vice President of TransAlta Corporation (power generation and wholesale marketing company) from 1997 to 2004 and served as Member of the Legislative Assembly of the Province of Alberta from 1986 to 1997. Mr. Dinning is the Chair of Export Development Canada and Director of Russel Metals, as well as other public and private companies.	March 24, 2004
Ger van Amersfoort,[2] *Oakville, Ont*	Director	President and Chief Executive Officer of Novartis Canada, a pharmaceutical company with in excess of $1 billion in annual sales and a workforce of 1,500, until his retirement in 2001. Before joining Novartis, he was President and Chief Executive Officer of the U.K. SmithKline Beecham operations from 1997 until managing the merger with Novartis in 1999. From 1990 to 1997, Mr. van Amersfoort headed up SmithKline Beecham operations in Canada as President and Chief Executive Officer. Prior to that, he held managing director positions with Beecham and The Boots Company, and sales positions with Bristol Myers in Holland. He is a recipient of the Paul Harris Medal and the Commemorative Medal of the Queen for outstanding services to the community. He has served on the Board of the Pharmaceutical Manufacturers Association of Canada (now Rx and D) for more than nine years, serving as chairman in 1996.	June 15, 2006
Ed Levy, Ph.D, [3] *Lund, BC*	Director	Adjunct professor at the W. Maurice Young Centre for Applied Ethics at the University of British Columbia since retiring from QLT Inc. in late 2002. From 1988 to 2002, Dr. Levy was with Vancouver-based biotechnology company QLT Inc., most recently as Senior Vice President from 1998. In these roles, he was primarily responsible for negotiating and managing QLT's strategic alliances, led strategic planning and oversaw the company's intellectual property. Dr. Levy served on the board of BIOTECanada from 1999-2002, and he has served on the boards of several technology	May 17, 2006

Name and Municipality of Residence	Position with the Corporation	Principal Occupation	Director of the Company Since
		companies and not-for-profits. Dr. Levy holds a PhD in the History and Philosophy of Science from Indiana University and taught philosophy of science at UBC from 1967-1988.	
Mary Ann Dillahunty, JD, MBA *Half Moon Bay, CA*	Vice President, Intellectual Property	Ms. Dillahunty was a principal in the law firm of Fish & Richardson, a leading intellectual property firm in the U.S. In 1992, she joined the law firm of Burns, Doane, Swecker & Mathis (now part of Buchanan Ingersoll & Rooney), and subsequently became a partner in the firm. During 1996-1997, Ms. Dillahunty held the position of patent counsel to the Implant Division of ALZA Corporation. Before joining Burns Doane, she was a patent agent and law clerk with the law firm of Heller, Ehrman, White & McAuliffe. Prior to focusing her career on patent law, Ms. Dillahunty held numerous positions in the biotechnology, pharmaceutical and medical device industries, including responsibilities in regulatory affairs and research science. Ms. Dillahunty holds a B.S. in Microbiology from Michigan State University, an MBA from George Washington University, and a JD degree from Stanford Law School.	N/A

Notes:

1) These persons are members of the Audit Committee. Mr. Stewart is the Chair of the Audit Committee.
2) These persons are members of the Compensation Committee. Mr. Stewart is the Chair of the Compensation Committee.
3) These persons are members of the Corporate Governance and Nominating Committee. Mr. Lievonen is the Chair of the Corporate Governance and Nominating Committee.
4) As Lead Director, Mr. Schultz is an ex-officio member of the Compensation and Nominating Committees.

As at the date hereof, the directors and senior officers as a group beneficially owned, directly or indirectly, 817,901 of our common shares, representing 1.9% of the issued and outstanding common shares.

Certain of our directors are associated with other companies, which may give rise to conflicts of interest. In accordance with theABCA, directors who have a material interest in any person who is a party to a material contract or a proposed material contract with us are required, subject to certain exceptions, to disclose that interest and abstain from voting on any resolution to approve that contract. In addition, the directors are required to act honestly and in good faith with a view to the best interests of Oncolytics Biotech Inc.

B. Executive Compensation

Directors

The following table sets forth information concerning the total compensation paid in 2008 to each director.

The following table details the compensation received by each Director in 2008.

Name	Fees earned ($)	Share-based awards ($)	Option-based awards ($)	Non-equity incentive plan compensation ($)	Pension value ($)	All other compensation ($)	Total ($)
Dr. W. Cochrane	$30,750	N/A	None	None	N/A	None	$30,750
Mr. G. van Amersfoort	$29,000	N/A	None	None	N/A	None	$29,000
Mr. J. Dinning	$29,000	N/A	None	None	N/A	None	$29,000
Mr. M. Lievonen	$23,750	N/A	None	None	N/A	None	$23,750
Dr. E. Levy	$25,500	N/A	None	None	N/A	None	$25,500
Mr. R. Schultz	$42,500	N/A	None	None	N/A	None	$42,500
Mr. F. Stewart	$42,000	N/A	None	None	N/A	None	$42,000

Officers

Summary Compensation Table

The following table sets forth information concerning the total compensation paid to our officers in 2008.

Name and principal position	Year	Salary ($)	Share-based awards ($)	Option-based awards ($)	Non-equity incentive plan compensation ($)		Pension value ($)	All other compensation ($)[1]	Total compensation ($)
					Annual incentive plans	Long-term incentive plans			
Dr. Bradley G. Thompson Chief Executive Officer	2008	444,996	N/A	None	None	N/A	N/A	46,700	491,696
Douglas A. Ball Chief Financial Officer	2008	257,567	N/A	None	None	N/A	N/A	35,454	293,021
Matt C. Coffey Chief Operating Officer	2008	326,244	N/A	None	None	N/A	N/A	39,573	365,797

Karl Mettinger[2]	2008	318,264	N/A	None	None	N/A	N/A	38,896	357,166
Chief Medical Officer									
Mary Ann Dillahunty [2]	2008	231,750	N/A	None	None	N/A	N/A	31,207	262,957
VP Intellectual Property									

Notes:

(1) The dollar amount set forth under this column is related to RRSP contributions and amounts provided for health care benefits by the Corporation to the Officers. For Officers resident in Canada these benefits are provided in accordance the Corporation's registered Health Benefit Plan.

(2) US Employees paid in US Dollars, all amounts for each US Employee are indicated in US Dollars.

Narrative Discussion

The Corporation has entered into employment agreements with each of the Named Executive Officers (each an "Employment Agreement"). Pursuant to the terms of the Employment Agreements, Dr. Thompson is entitled to an annual salary of $444,996 for the calendar year 2009, Mr. Ball is entitled to an annual salary of $257,567 for the calendar year 2009, Dr. Coffey is entitled to an annual salary of $326,224 for the calendar year 2009, Dr. Mettinger is entitled to an annual salary of US$318,270 for the calendar year 2009 and Ms. Dillahunty is entitled to US$154,500 based on a part-time basis for one-half (1/2) of normal working hours for the calendar year 2009. Further, each Named Executive Officer is entitled to additional benefits and performance-based bonuses. The Employment Agreements provide that each Named Executive Officer is subject to certain confidentiality and non-competition restrictions during and following the course of their respective employment with the Corporation. Each Employment Agreement shall continue until terminated by either party in accordance with the notice provisions thereof.

There are no long term incentive, benefit or actuarial plans in place. The Company does not currently have a stock appreciation rights plan.

Stock Options

Option Grants During the Year Ended December 31, 2008

There were no Stock options granted to the Officers during the financial year ended December 31, 2008.

Aggregated Option Exercises During the Year Ended December 31, 2008 and Financial Year-End Option Values

The following table sets forth certain information respecting the numbers and accrued value of unexercised stock options as at December 31, 2008 and options exercised by the Named Executive Officers during the financial year ended December 31, 2008:

			Unexercised Options at December 31, 2008		Value of Unexercised in-the-Money Options at December 31, 2008	
	Securities Acquired on Exercise	Aggregate Value Realized				
	(#)	($) [1]	(#) Exercisable	Unexercisable	($) [2] Exercisable	Unexercisable
Dr. Bradley G. Thompson	Nil	Nil	786,160	-	-	-
Douglas A. Ball	Nil	Nil	674,833	-	$2,750	-
Dr. Matthew Coffey	Nil	Nil	650,883	-	$122,953	-
Dr. Karl Mettinger	Nil	Nil	183,333	50,000	-	-
Mary Ann Dillahunty	Nil	Nil	66,667	50,000	-	-

Notes:

1) The aggregate value realized represents the dollar value equal to the difference between the exercise price of the options exercised and the market value of the Common Shares on the Toronto Stock Exchange on the date the options were exercised, multiplied by the number of options exercised.
2) The value of the unexercised "in-the-money" options has been determined by subtracting the exercise price of the options from the closing Common Share price of $1.49 on December 31, 2008, as reported by the Toronto Stock Exchange, and multiplying by the number of Common Shares that may be acquired upon the exercise of the options.

Termination of Employment or Change of Control

If the Employment Agreements of the Named Executive Officer are terminated by the Corporation other than for cause, Mr. Ball, Dr. Coffey, Dr. Mettinger and Ms. Dillahunty shall be entitled to 12 months pay in lieu of notice; and Dr. Thompson shall be entitled to 18 months pay in lieu of notice. If the Employment Agreements other than Ms. Dillahunty are terminated by the Corporation other than for cause, then all unexercised and unvested stock options then held by each are governed by the terms of the Stock Option Plan. Should Ms. Dillahunty be terminated by the Corporation other than for cause, then all unvested options will vest immediately. Further, if there is a change of control of the Corporation and Dr. Thompson, Mr. Ball, Dr. Coffey, Dr. Mettinger or Ms. Dillahunty are terminated without cause within one year following such change of control, then Dr. Thompson shall be entitled to 36 months pay in lieu of notice, Mr. Ball, Dr. Coffey, Dr. Mettinger and Ms. Dillahunty shall be entitled to 24 months pay in lieu of notice. For termination in accordance with this provision, pay shall include payment in lieu of benefits that otherwise would have been earned during the applicable term.

C. Board Practices

Our directors are elected by the shareholders at each Annual General Meeting and typically hold office until the next Annual General Meeting, at which time they may be re-elected or replaced. Casual vacancies on the board are filled by the remaining directors and the persons filling those vacancies hold office until the next Annual General Meeting, at which time they may be re-elected or replaced. The officers are appointed by the Board of Directors and hold office indefinitely at the pleasure of the Board of Directors.

Name and Municipality of Residence	**Position with the Corporation**	**Director of the Corporation Since**	**Date of Expiration of Current Term of Office**
Bradley G. Thompson Ph.D[2] *Calgary, Alberta*	President, Chief Executive Officer and Chairman of the Board	April 21, 1999	Date of 2009 Annual General Meeting of the Shareholders
Douglas A. Ball C.A. *Calgary, Alberta*	Chief Financial Officer and Director	April 21, 1999	Date of 2009 Annual General Meeting of the Shareholders
William A. Cochrane, OC, M.D. [2],[3] Calgary, Alberta	Director	October 31, 2002	Date of 2009 Annual General Meeting of the Shareholders
Robert B. Schultz, F.C.A. [1], [4] *Toronto, Ontario*	Lead Director	June 30, 2000	Date of 2009 Annual General Meeting of the Shareholders
Fred A. Stewart, Q.C.[1], [2] *Calgary, Alberta*	Director	August 27, 1999	Date of 2009 Annual General Meeting of the Shareholders

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J. Mark Lievonen C.A.[3] *Markham, Ontario*	Director	April 5, 2004	Date of 2009 Annual General Meeting of the Shareholders
Jim Dinning[1] Calgary, Alberta	Director	March 24, 2004	Date of 2009 Annual General Meeting of the Shareholders
Ger van Amersfoort,[2] *Oakville, Ont*	Director	June 15, 2006	Date of 2009 Annual General Meeting of the Shareholders
Ed Levy, Ph.D, [3] *Lund, BC*	Director	May 17, 2006	Date of 2009 Annual General Meeting of the Shareholders

Notes:

1) These persons are members of the Audit Committee. Mr. Stewart is the Chair of the Audit Committee.
2) These persons are members of the Compensation Committee. Mr. Stewart is the Chair of the Compensation Committee.
3) These persons are members of the Corporate Governance and Nominating Committee. Mr. Lievonen is the Chair of the Corporate Governance and Nominating Committee.
4) As Lead Director, Mr. Schultz is an "ex officio" member of the Corporate Governance and Compensation Committee.

Directors' Contracts

We receive a director's consent from each of the independent directors upon their acceptance of their director's position. We also enter into an Indemnity Agreement and Directors Confidentiality and Intellectual Property Assignment Agreement with each director.

The Company does not have any contracts with any of its directors which provide for benefits upon the termination of employment.

Compensation of Directors

Each director who is not a salaried employee of the Corporation was entitled to a fee of $1,750 per board and committee meeting attended. An annual retainer fee of $15,000 was paid for service during 2008 and the lead director was entitled to an additional annual $10,000 retainer. The chair of the audit committee received an additional retainer of $6,000. The Corporation also grants to directors, from time to time, stock options in accordance with the Plan and the reimbursement of any reasonable expenses incurred by them while acting in their directors' capacity. In the aggregate, a total of $222,500 in director's fees was paid to the board of directors of the Corporation (the "Board" or "Board of Directors") during the fiscal year ended December 31, 2008. There have not been any changes to the fees for 2009. During the fiscal year ended December 31, 2008, there were no ?options granted to the directors in accordance with the Compensation Committee recommendation.

Compensation Committee

A. Compensation Discussion and Analysis

The Corporation has formed a Compensation Committee consisting of three outside directors Mr. Stewart, Mr. van Amersfoort and Dr. Cochrane, none of whom are nor have been employees or officers of the Corporation or any of its affiliates. Mr. Stewart is presently the Chair of the Compensation Committee.

In arriving at its recommendations for compensation, the Compensation Committee considers the long-term interests of the Corporation as well as its current stage of development and the economic environment within which it operates. The market for biotechnology companies in the development phase has been extremely challenging throughout 2008, and it has been exacerbated by the further deterioration of the capital markets late in 2008, and

continuing into 2009. Based on these factors, the compensation committee recognized the need to strike a balance between compensation to retain employees and resources expended to maintain operations. The Compensation Committee has in the past, undertaken market comparisons in developing appropriate compensation arrangements; however, due to market and sector conditions, it has deferred this activity, determining that a general maintenance with respect to salaries and benefits, with a temporary suspension with respect to bonuses and options for directors and officers of the Corporation was reasonable and appropriate.

The Compensation Committee then provided these specific recommendations to the board of directors of Oncolytics with respect to compensation paid to the Corporation's executive and senior officers.

The objectives of the Corporation's compensation arrangements are: (i) to attract and retain key personnel; (ii) to encourage commitment to the Corporation and its goals; (iii) to align executive interests with those of its shareholders; (iv) to reward executives for performance in relation to predetermined and quantifiable goals; and (v) to identify and focus executives on key business factors that affect shareholder value.

The key elements of the compensation program are the base salary, health benefits, payments allocated to employees to be directed by them to their personal retirement accounts, as well as bonuses and the granting of options, both based on corporate and personal performance. While the Corporation made tremendous progress in 2008, the committee and the Board made the determination that payment of bonuses, and granting of options for executives or directors were to be suspended with respect to awards or grants for the 2008 year.

Performance goals are determined based on the strategic planning and budgeting process, which is conducted at least annually. The balance of performance during the year is assessed by the board and is normally the key determinant for the allocation of bonuses and options.

The Corporation has formed a Compensation Committee consisting of three outside directors Mr. Stewart, Mr. van Amersfoort and Dr. Cochrane, none of whom are nor have been employees or officers of the Company or any of its affiliates. Mr. Stewart is presently the Chair of the Compensation Committee.

Compensation Committee Mandate

This Mandate was amended and approved by the Board on March 4, 2009.

1. Policy Statement

It is the policy of Oncolytics Biotech Inc. (the "Corporation") to establish and maintain a Compensation Committee (the "Committee"), composed entirely of independent directors, to assist the Board of Directors of the Corporation (the "Board") in carrying out its responsibility for the Corporation’s human resources and compensation policies and processes. The Committee will be provided with resources commensurate with the duties and responsibilities assigned to it by the Board, including administrative

support. If determined necessary by the Committee, it will have the discretion to investigate and conduct reviews of any human resource or compensation matter including the standing authority to retain experts and, with approval of the Board, special counsel.

2. Composition of Committee

a. The Committee shall consist of a minimum of two (2) directors, at least half of whom shall be resident Canadians. The Board shall appoint the members of the Committee and may seek the advice and assistance of the Corporate Governance and Nominating Committee in identifying qualified candidates. The Board shall appoint one member of the Committee to be the Chair of the Committee, or delegate such authority to appoint the Chair of the Committee to the Committee.

b. The Chair of the Committee shall be responsible for the leadership of the Committee, including preparing or approving the agenda, presiding over the meetings, and making committee assignments.
c. Each director appointed to the Committee by the Board shall be an outside director who is unrelated. An outside, unrelated director is a director who meets the requirements of NASDAQ Rule 4200 and National Instrument 58-101 who is independent of management and is free from any interest, any business or other relationship which could, or could reasonably be perceived, to materially interfere with the director's ability to act with a view to the best interests of the Corporation, other than interests and relationships arising from shareholding. In determining whether a director is independent of management, the Board shall make reference to the then current legislation, rules, policies and instruments of applicable regulatory authorities.
d. A director appointed by the Board to the Committee shall be a member of the Committee until replaced by the Board or until his or her resignation.

3. Meetings of the Committee

a. The Committee shall convene a minimum of two times each year at such times and places as may be designated by the Chair of the Committee and whenever a meeting is requested by the Board, a member of the Committee, or the Chief Executive Officer of the Corporation (the "CEO").
b. Notice of each meeting of the Committee shall be given to each member of the Committee and the CEO, who shall each be entitled to attend each meeting of the Committee and shall attend whenever requested to do so by a member of the Committee.
c. Notice of a meeting of the Committee shall:
    i. be in writing, including by electronic communication facilities;
    ii. state the nature of the business to be transacted at the meeting in reasonable detail;
    iii. to the extent practicable, be accompanied by copies of documentation to be considered at the meeting; and
    iv. be given at least two business days prior to the time stipulated for the meeting or such shorter period as the members of the Committee may permit.
d. A quorum for the transaction of business at a meeting of the Committee shall consist of a majority of the members of the Committee. However, it shall be the practice of the Committee to require review, and, if necessary, approval of certain important matters by all members of the Committee.
e. A member or members of the Committee may participate in a meeting of the Committee by means of such telephonic, electronic or other communication facilities, as permits all persons participating in the meeting to communicate adequately with each other. A member participating in such a meeting by any such means is deemed to be present at the meeting.
f. In the absence of the Chair of the Committee, the members of the Committee shall choose one of the members present to be Chair of the meeting. In addition, the members of the Committee shall choose one of the persons present to be the Secretary of the meeting.

g. Minutes shall be kept of all meetings of the Committee and shall be signed by the Chair and the Secretary of the meeting.

4. Duties and Responsibilities of the Committee

a. The Committee shall, at the earliest opportunity after each meeting, report to the Board the results of its activities and any reviews undertaken and make recommendations to the Board as deemed appropriate.

b. The Committee's primary duties and responsibilities are to review and make recommendations to the Board in respect of:

i. human resource policies, practices and structures (to monitor consistency with the Corporation's goals and near and long-term strategies, support of operational effectiveness and efficiency, and maximization of human resources potential);

ii. compensation policies and guidelines;

iii. management incentive and perquisite plans and any non-standard remuneration plans;

iv. senior management, executive and officer appointments and their compensation;

v. management succession plans, management training and development plans, termination policies and termination arrangements; and

vi. Board compensation matters.

c. In carrying out its duties and responsibilities, the Committee shall:

i. annually assess and make a recommendation to the Board with regard to the competitiveness and appropriateness of the compensation package of the CEO, all other officers of the Corporation and such other key employees of the Corporation or any subsidiary of the Corporation as may be identified by the CEO and approved by the Committee (collectively, the "Designated Employees");

ii annually review the performance goals and criteria for the CEO and evaluate the performance of the CEO against such goals and criteria and recommend to the Board the amount of regular and incentive compensation to be paid to the CEO;

iii. annually, review and make a recommendation to the Board regarding the CEO's performance evaluation of Designated Employees and his recommendations with respect to the amount of regular and incentive compensation to be paid to such Designated Employees;

iv. review and make a recommendation to the Board regarding any employment contracts or arrangements with each of the Designated Employees, including any retiring allowance arrangements or any similar arrangements to take effect in the event of a termination of employment;

v. periodically, review the compensation philosophy statement of the Corporation and make recommendations for change to the Board as considered necessary;

vi. from time to time, review and make recommendations to the Board in respect of the design, benefit provisions, investment options and text of applicable pension, retirement and savings plans or related matters;
vii. annually, in conjunction with the Corporation's general and administrative budget, review and make recommendations to the Board regarding compensation guidelines for the forthcoming budget period;
viii. when requested by the CEO, review and make recommendations to the Board regarding short term incentive or reward plans and, to the extent delegated by the Board, approve awards to eligible participants;
ix. review and make recommendations to the Board regarding incentive stock option plans or any other long term incentive plans and to the extent delegated by the Board, approve grants to participants and the magnitude and terms of their participation;
x as required, fulfill the obligations assigned to the Committee pursuant to any other employee benefit plans approved by the Board;
xi. annually, prepare or review the report on executive compensation required to be disclosed in the Corporation's information circular or any other human resource or compensation matter required to be publicly disclosed by the Corporation;
xii. periodically, but at least every third year, review and make a recommendation to the Board regarding the compensation of the Board of Directors;
xiii. as required, retain independent advice in respect of human resources and compensation matters and, if deemed necessary by the Committee, meet separately with such advisors; and
xiv. assess, on an annual basis, the adequacy of this Mandate and the performance of the Committee.

d. In addition to the foregoing, the Committee shall undertake on behalf of the Board such other initiatives as may be necessary or desirable to assist the Board in discharging its responsibility to ensure that appropriate human resources development, performance evaluation, compensation and succession planning programs are in place and operating effectively.

Audit Committee

The Corporation has formed an Audit Committee in accordance with Section 3(a)(58)(A) of the U.S. Securities and Exchange Commission of 1934, as amended, consisting of three independent directors: Mr. Fred Stewart, Mr. Jim Dinning and Mr. Robert Schultz, none of whom are nor have been employees or officers of the Company or any of its affiliates. Mr. Stewart is presently the Chair of the Audit Committee. Each Audit Committee member is financially literate.

Mandate of the Audit Committee

This Mandate was approved by the Company's board of directors on March 4, 2009.

Policy Statement

It is the policy of Oncolytics Biotech Inc. (the "Corporation") to establish and maintain an Audit Committee, composed entirely of independent directors, to assist the Board of Directors (the "Board") in carrying out their oversight responsibility for the Corporation's internal controls, financial reporting and risk management processes. The Audit Committee will be provided with resources commensurate with the duties and responsibilities assigned to it by the Board including administrative support. If determined necessary by the Audit Committee, it will have the discretion to institute investigations of improprieties, or suspected improprieties within the scope of its responsibilities, including the standing authority to retain special counsel or experts.

Composition of the Committee

The Audit Committee shall consist of a minimum of three (3) directors, at least half of whom shall be resident Canadians. The Board shall appoint the members of the Audit Committee and may seek the advice and assistance of the Corporate Governance and Nominating Committee in identifying qualified candidates. The Board shall appoint one member of the Audit Committee to be the Chair of the Audit Committee, or delegate such authority to appoint the Chair of the Audit Committee to the Audit Committee.

The Chair of the Committee shall be responsible for leadership of the Committee, including preparing or approving the agenda, presiding over the meetings, and making committee assignments.

Each director appointed to the Audit Committee by the Board shall be an outside director who is unrelated. An outside, unrelated director is a director who meets the requirements of NASDAQ Rule 4200 and Multilaterial Instrument 52-110. A director appointed to the audit committee shall also meet the requirements of NASDAQ Rule 4350 (d)(2)(A)(ii) and Exchange Act Rule 10A-3(b)(1). Such director shall be independent of management and free from any interest, any business or other relationship which could, or could reasonably be perceived, to materially interfere with the director's ability to act with a view to the best interests of the Corporation, other than interests and relationships arising from shareholding. In determining whether a director is independent of management, the Board shall make reference to the abovementioned rules and any applicable revisions thereto, and any additional relevant then current legislation, rules, policies and instruments of applicable regulatory authorities.

Each member of the Audit Committee shall be financially literate. In order to be financially literate, a director must be, at a minimum, able to read and understand basic financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements. At least one member shall have accounting or related financial management expertise, meaning the ability to analyze and interpret a full set of financial statements, including the notes attached thereto, in accordance with generally GAAP. In determining whether a member of the Audit Committee is financially literate or has accounting or related financial expertise, reference shall be made to the then current legislation, rules, policies and instruments of applicable regulatory authorities, which for further clarification, shall include but not be limited to the definition of "financial expert" as defined by the U.S. Securities and Exchange Commission rule.

A director appointed by the Board to the Audit Committee shall be a member of the Audit Committee until replaced by the Board or until his or her resignation.

Meetings of the Committee

The Audit Committee shall convene a minimum of four times each year at such times and places as may be designated by the Chair of the Audit Committee and whenever a meeting is requested by the Board, a member of the Audit Committee, the auditors, or senior management of the Corporation. Scheduled meetings of the Audit Committee shall correspond with the review of the year-end and quarterly financial statements and management discussion and analysis.

Notice of each meeting of the Audit Committee shall be given to each member of the Audit Committee and to the auditors, who shall be entitled to attend each meeting of the Audit Committee and shall attend whenever requested to do so by a member of the Audit Committee.

Notice of a meeting of the Audit Committee shall:

a. be in writing, including by electronic communication facilities;
b. state the nature of the business to be transacted at the meeting in reasonable detail;
c. to the extent practicable, be accompanied by copies of documentation to be considered at the meeting; and
d. be given at least two business days prior to the time stipulated for the meeting or such shorter period as the members of the Audit Committee may permit.

A quorum for the transaction of business at a meeting of the Audit Committee shall consist of a majority of the members of the Audit Committee. However, it shall be the practice of the Audit Committee to require review, and, if necessary, approval of certain important matters by all members of the Audit Committee.

A member or members of the Audit Committee may participate in a meeting of the Audit Committee by means of such telephonic, electronic or other communication facilities, as permits all persons participating in the meeting to communicate adequately with each other. A member participating in such a meeting by any such means is deemed to be present at the meeting.

In the absence of the Chair of the Audit Committee, the members of the Audit Committee shall choose one of the members present to be Chair of the meeting. In addition, the members of the Audit Committee shall choose one of the persons present to be the Secretary of the meeting.

A member of the Board, senior management of the Corporation and other parties may attend meetings of the Audit Committee; however the Audit Committee (i) shall, at each meeting, meet with the external auditors independent of other individuals other than the Audit Committee and (ii) may meet separately with management.

Minutes shall be kept of all meetings of the Audit Committee and shall be signed by the Chair and the Secretary of the meeting.

Duties and Responsibilities of the Committee

The Audit Committee’s primary duties and responsibilities are to:

a. identify and monitor the management of the principal risks that could impact the financial reporting of the Corporation ;
b. monitor the integrity of the Corporation’s financial reporting process and system of internal controls regarding financial reporting and accounting compliance;
c. monitor the independence and performance of the Corporation’s external auditors. This will include receipt, review and evaluation, at least annually, of a formal written statement from the independent auditors confirming their independence, and qualifications, including their compliance with the requirements of the relevant oversight boards ;
d. deal directly with the external auditors to pre-approve external audit plans, other services (if any) and fees;

e. directly oversee the external audit process and results (in addition to items described in Section 4(d) below);
f. provide an avenue of communication among the external auditors, management and the Board;
g. carry out a review designed to ensure that an effective "whistle blowing" procedure exists to permit stakeholders to express any concerns regarding accounting, internal controls, auditing matters or financial matters to an appropriately independent individual;
h. pre-approve any related party transactions to be entered into by the Company, and ensure appropriate disclosure thereof;
i. ensure financial disclosure incorporates inclusion of any material correcting adjustments required by the external auditors; and
j. require and ensure that the external auditors are directly responsible to the Audit Committee, to whom they report

The Audit Committee shall have the authority to:

a. inspect any and all of the books and records of the Corporation and its affiliates;
b. discuss with the management of the Corporation and its affiliates, any affected party and the external auditors, such accounts, records and other matters as any member of the Audit Committee considers necessary and appropriate;
c. engage independent counsel and other advisors as it determines necessary to carry out its duties; and
d. to set and pay the compensation for any advisors employed by the Audit Committee.

The Audit Committee shall, at the earliest opportunity after each meeting, report to the Board the results of its activities and any reviews undertaken and make recommendations to the Board as deemed appropriate.

The Audit Committee shall:

a. review the audit plan with the Corporation’s external auditors and with management;
b. review with the independent auditors the matters required to be discussed relating to the conduct of the audit, including (a) the proposed scope of their examination, with emphasis on accounting and financial areas where the Committee, the independent auditors or management believes special attention should be directed; (b) the results of their audit, including their audit findings report and resulting letter, if any, of recommendations for management; (c) their evaluation of the adequacy and effectiveness of the Company’s internal controls over financial reporting; (d) significant areas of disagreement, if any, with management; (e) co-operation received from management in the conduct of the audit; (f) significant accounting, reporting, regulatory or industry developments affecting the Company; and (g) review any proposed changes in major accounting policies or principles proposed or contemplated by the independent auditors or management, the presentation and impact of material risks and uncertainties and key estimates and judgements of management that may be material to financial reporting;

c. review with management and with the external auditors material financial reporting issues arising during the most recent fiscal period and the resolution or proposed resolution of such issues;
d. review any problems experienced or concerns expressed by the external auditors in performing an audit, including any restrictions imposed by management or material accounting issues on which there was a disagreement with management;
e. review with senior management the process of identifying, monitoring and reporting the principal risks affecting financial reporting;
f. review audited annual financial statements (including management discussion and analysis) and related documents in conjunction with the report of the external auditors and obtain an explanation from management of all material variances between comparative reporting periods. Without restricting the generality of the foregoing, the committee will discuss with management and the independent auditors to the extent required, any issues and disclosure requirements regarding (a) the use of “pro forma” or “adjusted” non-GAAP information, as well as financial information and earnings guidance provided to analysts and rating agencies, (b) any off balance sheet arrangements, and (c) any going concern qualification.
g. consider and review with management, the internal control memorandum or management letter containing the recommendations of the external auditors and management’s response, if any, including an evaluation of the adequacy and effectiveness of the internal financial controls of the Corporation and subsequent follow-up to any identified weaknesses;
h. review with financial management and the external auditors the quarterly unaudited financial statements and management discussion and analysis before release to the public;
i. before release, review and if appropriate, recommend for approval by the Board, all public disclosure documents containing audited or unaudited financial information, including any prospectuses, annual reports, annual information forms, management discussion and analysis and press releases; and
j. oversee, any of the financial affairs of the Corporation or its affiliates, and, if deemed appropriate, make recommendations to the Board, external auditors or management.

The Audit Committee shall:

a. evaluate the independence and performance of the external auditors and annually recommend to the Board the appointment of the external auditor or the discharge of the external auditor when circumstances are warranted and monitor the audit partners’ rotation as required by law.;
b. consider the recommendations of management in respect of the appointment of the external auditors;
c. pre-approve all non-audit services to be provided to the Corporation or its subsidiary entities by its external auditors', or the external auditors of affiliates of the Corporation subject to the over-riding principle that the external auditors not being permitted to be retained by the Corporation to perform specifically listed categories of non-audit services as set forth by the Securities and Exchange Commission as well as internal audit outsourcing services, financial information systems work and expert services. Notwithstanding, the foregoing the pre-approval of non-audit services may be delegated to a member of the Audit Committee, with any decisions of the member with the delegated authority reporting to the Audit Committee at the next scheduled meeting;

d. approve the engagement letter for non-audit services to be provided by the external auditors or affiliates, together with estimated fees, and considering the potential impact of such services on the independence of the external auditors;
e. when there is to be a change of external auditors, review all issues and provide documentation related to the change, including the information to be included in the Notice of Change of Auditors and documentation required pursuant to the then current legislation, rules, policies and instruments of applicable regulatory authorities and the planned steps for an orderly transition period; and
f. review all reportable events, including disagreements, unresolved issues and consultations, as defined by applicable securities policies, on a routine basis, whether or not there is to be a change of external auditors.

The Audit Committee shall enquire into and determine the appropriate resolution of any conflict of interest in respect of audit or financial matters, which are directed to the Audit Committee by any member of the Board, a shareholder of the Corporation, the external auditors, or senior management.

The Audit Committee shall periodically review with management the need for an internal audit function.

The Audit Committee shall review the Corporation’s accounting and reporting of costs, liabilities and contingencies.

The Audit Committee shall establish and maintain procedures for:

a. the receipt, retention and treatment of complaints received by the Corporation regarding accounting controls, or auditing matters; and
b. the confidential, anonymous submission by employees of the Corporation or concerns regarding questionable accounting or auditing matters.

The Audit Committee shall review and approve the Corporation's hiring policies regarding employees and former employees of the present and former external auditors.

The Audit Committee shall review with the Corporation's legal counsel, on no less than an annual basis, any legal matter that could have a material impact on the Corporation's financial statements, and any enquiries received from regulators, or government agencies.

The Audit Committee shall assess, on an annual basis, the adequacy of this Mandate and the performance of the Audit Committee.

D. Employees

The following table sets out the number of our employees at the end of each of the last three fiscal years.

	2008	**2007**	**2006**
Research and development	10	9	7
Operating	6	5	5
Total	16	14	12

E. Share Ownership

The following table sets out the share ownership of, and options held by, our directors and officers.

	Common Shares	Percentage of Ownership(1)	Options(2)	Exercise Price	Expiry Date	Percentage of Outstanding (1)(3)
Officers						
Brad Thompson	652,900	1.48%	15,000	12.15	Dec 14, 2010	
			18,000	9.76	Jun 20, 2011	
			25,000	7.25	Dec 17, 2011	
			50,000	2.70	May 16, 2012	
			10,000	2.00	Dec 13, 2012	
			59,000	3.33	Aug 5, 2013	
			80,000	4.50	Dec 11, 2013	
			30,000	8.10	May 28, 2014	
			350,000	5.00	Dec 9, 2014	
			149,160	2.22	Dec 12, 2017	
			786,160			3.28%
Matt Coffey	65,000	**	223,550	0.85	Nov 8, 2009	
			15,000	12.15	Dec 14, 2010	
			18,000	9.76	Jun 20, 2011	
			20,000	7.25	Dec 17, 2011	
			37,500	2.70	May 16, 2012	
			10,000	2.00	Dec 13, 2012	
			53,500	3.33	Aug 5, 2013	
			40,000	4.50	Dec 11, 2013	
			20,000	8.10	May 28, 2014	
			180,000	5.00	Dec 9, 2014	
			33,333	2.22	Dec 12, 2017	
			650,883			1.63%
Doug Ball	3,000	**	5,000	0.85	Nov 8, 2009	
			250,000	9.50	May 17, 2010	
			15,000	12.15	Dec 14, 2010	
			27,000	9.76	Jun 20, 2011	
			20,000	7.25	Dec 17, 2011	
			37,500	2.70	May 16, 2012	
			10,000	2.00	Dec 13, 2012	
			37,000	3.33	Aug 5, 2013	
			40,000	4.50	Dec 11, 2013	
			20,000	8.10	May 28, 2014	
			180,000	5.00	Dec 9, 2014	
			33,333	2.22	Dec 12, 2017	
			674,833			1.54%
Mary Ann Dillahunty	2,201	**	100,000	3.28	Feb 1, 2017	
			16,667	2.22	Dec 12, 2007	

			116,667			**
Karl Mettinger	2,000	**	200,000	3.18	Sept 23, 2015	
			33,333	2.22	Dec 12, 2017	
			233,333			**
George Gill	—	**	20,000	7.50	Oct 18, 2011	
			100,000	1.85	Oct 10, 2012	
			17,000	3.33	Aug 5, 2013	

	Common Shares	Percentage of Ownership(1)	Options(2)	Exercise Price	Expiry Date	Percentage of Outstanding (1)(3)
			40,000	4.50	Dec 11, 2013	
			7,500	8.10	May 28, 2014	
			12,500	5.00	Dec 9, 2014	
			16,667	2.22	Dec 12, 2017	
			213,667			**
Directors						
Bob Schultz	10,000	**	50,000	13.50	Jul 11, 2010	
			15,000	12.15	Dec 14, 2010	
			9,000	9.76	Jun 20, 2011	
			10,000	7.25	Dec 17, 2011	
			7,500	2.70	May 16, 2012	
			10,000	2.00	Dec 13, 2012	
			34,000	3.33	Aug 5, 2013	
			10,000	4.50	Dec 11, 2013	
			5,000	8.10	May 28, 2014	
			22,500	5.00	Dec 9, 2014	
			10,000	2.25	Dec 15, 2016	
			17,500	2.22	Dec 12, 2017	
			200,500			**
Fred Stewart	24,000	**	30,000	0.85	Nov 8, 2009	
			15,000	12.15	Dec 14, 2010	
			9,000	9.76	Jun 20, 2011	
			10,000	7.25	Dec 17, 2011	
			7,500	2.70	May 16, 2012	
			10,000	2.00	Dec 13, 2012	
			21,000	3.33	Aug 5, 2013	
			10,000	4.50	Dec 11, 2013	
			5,000	8.10	May 28, 2014	
			22,500	5.00	Dec 9, 2014	
			10,000	2.25	Dec 15, 2016	
			17,500	2.22	Dec 12, 2017	
			167,500			**
Jim Dinning	20,000	**	50,000	6.90	Mar 29, 2014	
			5,000	8.10	May 28, 2014	
			22,500	5.00	Dec 9, 2014	
			10,000	2.25	Dec 15, 2016	
			17,500	2.22	Dec 12, 2017	
			105,000			**

Mark Lievonen	3,000	**	50,000	9.38	Apr 5, 2014	
			5,000	8.10	May 28, 2014	
			22,500	5.00	Dec 9, 2014	
			10,000	2.25	Dec 15, 2016	
			17,500	2.22	Dec 12, 2017	
			105,000			**
Bill Cochrane	15,500	**	47,000	1.79	Nov 4, 2012	

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	Common Shares	Percentage of Ownership(1)	Options(2)	Exercise Price	Expiry Date	Percentage of Outstanding (1)(3)
			4,000	3.33	Aug 5, 2013	
			10,000	4.50	Dec 11, 2013	
			5,000	8.10	May 28, 2014	
			22,500	5.00	Dec 9, 2014	
			10,000	2.25	Dec 15, 2016	
			17,500	2.22	Dec 12, 2017	
			116,000			**
Ed Levy	10,100	**	50,000	4.10	May 16, 2016	
			10,000	2.25	Dec 15, 2016	
			17,500	2.22	Dec 12, 2017	
			77,500			**
Ger van Amersfoort	10,200	**	50,000	3.60	Jun 15, 2016	
			10,000	2.25	Dec 15, 2016	
			17,500	2.22	Dec 12, 2017	
			77,500			**
TOTAL:	817,901		3,524,543			

** Less than 1% ownership

Notes:

1) Based on 43,830,748 common shares issued and outstanding on December 31, 2008
2) Options exercisable to acquire common shares
3) Ownership percentage assumes aggregate beneficial ownership of common shares and common shares acquirable upon exercise of options

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

We are not directly or indirectly owned or controlled by another corporation(s) or by any foreign government. To the knowledge of our directors and senior officers, at December 31, 2008, there are no persons/entities who beneficially owned, directly or indirectly, or exercised control or direction over, our common shares carrying more than 5% of the voting rights attached to all our outstanding common shares.

The following table indicates, as of March 6, 2009, the total number of common shares issued and outstanding, the approximate total number of holders of record of common shares, the number of holders of record of common shares with U.S. addresses, the portion of the outstanding common shares held by U.S. holders of record, and the percentage of common shares held by U.S. holders of record. This table does not indicate beneficial ownership of common shares.

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Total Number of Holders of Record	Total Number of Common Shares issued and Outstanding	Number of U.S. Holders of Record[2]	Number of Common Shares Held by U.S. Holders of Record	Percentage of Common Shares Held by U.S. Holders of Record
191	43,855,748	52	249,907	0.6%

B. Related Party Transactions

Since January 1, 2008 through the filing of this annual report, we have not entered into any related party transactions with the major shareholder disclosed above. We have entered into employment contracts with each of our officers (see Item 6). We have not entered into any other related party transactions and we do not have any loans outstanding with any officer, director or major shareholder.

C. Interests of Experts and Council

Not Applicable

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Statements

The financial statements filed as part of this annual report are filed under Item 18.

B. Significant Changes

There have been no significant changes to our annual financial statements.

ITEM 9. THE OFFER AND LISTING

A. Offering and Listing Details

Our Common Shares are traded on the TSX and on the NASDAQ under the symbol "ONC" and “ONCY”, respectivley. The last reported sales price of our common shares on March 5, 2009 on the TSX was $1.58 and on the NASDAQ Capital Market was Cdn$1.25. The following table sets forth the high and low per share sales prices for our common shares on the NASDAQ and TSX for the periods indicated.

	Common Shares			
	NASDAQ[1]		TSX[2]	
	High	Low	High	Low
2003	4.60	1.00	6.07	1.53
2004	8.68	3.05	11.45	4.00
2005	5.57	2.51	6.66	2.98
2006	5.16	1.81	6.05	2.11
2007	2.90	1.46	3.40	1.50
Quarter 1	2.90	1.82	3.40	2.10
Quarter 2	2.28	1.88	2.59	2.08
Quarter 3	2.04	1.46	2.17	1.50

Quarter 4	2.71	1.72	2.53	2.15

2008	2.31	1.06	2.50	1.23
Quarter 1	2.13	1.71	2.26	1.66
Quarter 2	2.31	1.78	2.50	1.60
Quarter 3	1.91	1.50	2.10	1.40
Quarter 4	1.60	1.06	1.92	1.23
September	1.80	1.50	1.94	1.40
October	1.51	1.21	1.92	1.23
November	1.60	1.17	1.90	1.35
December	1.25	1.06	1.79	1.26
2009				
January	1.40	1.16	1.68	1.44
February	1.49	1.22	1.83	1.50

(1) All NASDAQ sales prices are quoted in US$ and are based on the high and low closing sales prices during the period quoted.

(2) All TSX sales prices are quoted in Cdn$ and are based on the high and low closing sales prices during the period quoted.

Market Price Volatility of Common Shares

Market prices for the securities of biotechnology companies, including our securities, have historically been highly volatile, and the market has from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. Factors, such as fluctuations in our operating results, the aftermath of our public announcements, and general market conditions, can have an adverse effect on the market price of our common shares and other securities.

B. Plan of Distribution

Not Applicable

C. Markets

Our common shares, no par value, are traded on the NASDAQ Capital Market and the TSX under the symbol “ONCY" and “ONC”, respectively.

D. Selling Shareholders

Not Applicable

E. Dilution

Not Applicable

F. Expenses of the Issue

Not Applicable

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not Applicable

B. Memorandum and Articles of Association

Articles of Continuance

We are governed by our amended articles of incorporation (the "Articles") under the Business Corporations Act of Alberta (the “Act”) and by our by-laws (the "By-laws"). Our Alberta corporate access number is 207797382. Our Articles provide that there are no restrictions on the business we may carry on or on the powers we may exercise. Companies incorporated under the Act are not required to include specific objects or purposes in their articles or by-laws.

Directors

Subject to certain exceptions, including in respect of voting on any resolution to approve a contract that relates primarily to the director's remuneration, directors may not vote on resolutions to approve a material contract or material transaction if the director is a party to such contract or transaction. The directors are entitled to remuneration as shall from time to time be determined by the Board of Directors with no requirement for a quorum of independent directors. The directors have the ability under the Act to exercise our borrowing power, without authorization of the shareholders. The Act permits shareholders to restrict this authority through a company's articles or by-laws (or through a unanimous shareholder agreement), but no such restrictions are in place for us. Our Articles and By-laws do not require directors to hold shares for qualification.

Rights, Preferences and Dividends Attaching to Shares

The holders of common shares have the right to receive dividends if and when declared. Each holder of common shares, as of the record date prior to a meeting, is entitled to attend and to cast one vote for each common share held as of such record date at such annual and/or special meeting, including with respect to the election or re-election of directors. Subject to the provisions of our By-laws, all directors may, if still qualified to serve as directors, stand for re-election. The numbers of our Board of Directors are not replaced at staggered intervals but are elected annually.

On a distribution of assets on a winding-up, dissolution or other return of capital (subject to certain exceptions) the holders of common shares shall have a right to receive their *pro rata* share of such distribution. There are no sinking fund or redemption provisions in respect of the common shares. Our shareholders have no liability to further capital calls as all shares issued and outstanding are fully paid and non-assessable.

No other classes of shares are currently permitted to be issued.

Action Necessary to Change the Rights of Shareholders

The rights attaching to the different classes of shares may be varied by special resolution passed at a meeting of that class's shareholders.

Annual and Special Meetings of Shareholders

Under the Act and our By-laws, we are required to mail a Notice of Meeting and Management Information Circular to registered shareholders not less than 21 days and not more than 50 days prior to the date of the meeting. Such materials must be filed concurrently with the applicable securities regulatory authorities in Canada and the U.S. Subject to certain provisions of the By-laws, a quorum of two or more shareholders in person or represented by proxy holding or representing by proxy not less than five (5%) percent of the total number of issued and outstanding shares enjoying voting rights at such meeting is required to properly constitute a meeting of shareholders. Shareholders and their duly appointed proxies and corporate representatives are entitled to be admitted to our annual and/or special meetings.

Limitations on the Rights to Own Shares

The Articles do not contain any limitations on the rights to own shares. Except as described below, there are currently no limitations imposed by Canadian federal or provincial laws on the rights of non-resident or foreign

owners of Canadian securities to hold or vote the securities held. There are also no such limitations imposed by the Articles and By-laws with respect to our common shares.

Disclosure of Share Ownership

In general, under applicable securities regulation in Canada, a person or company who beneficially owns, directly or indirectly, voting securities of an issuer or who exercises control or direction over voting securities of an issuer or a combination of both, carrying more than 10% of the voting rights attached to all the issuer's outstanding voting securities is an insider and must, within 10 days of becoming an insider, file a report in the required form effective the date on which the person became an insider. The report must disclose any direct or indirect beneficial ownership of, or control or direction over, securities of the reporting issuer. Additionally, securities regulation in Canada provides for the filing of a report by an insider of a reporting issuer whose holdings change, which report must be filed within 10 days from the day on which the change takes place.

The rules in the U.S. governing the ownership threshold above which shareholder ownership must be disclosed are more stringent than those discussed above. Section 13 of the Exchange Act imposes reporting requirements on persons who acquire beneficial ownership (as such term is defined in Rule 13d-3 under the Exchange Act) of more than 5% of a class of an equity security registered under Section 12 of the Exchange Act. In general, such persons must file, within 10 days after such acquisition, a report of beneficial ownership with the SEC containing the information prescribed by the regulations under Section 13 of the Exchange Act. This information is also required to be sent to the issuer of the securities and to each exchange where the securities are traded.

Other Provisions of Articles and By-laws

There are no provisions in the Articles or By-laws:

- delaying or prohibiting a change in control of our company that operate only with respect to a merger, acquisition or corporate restructuring;
- discriminating against any existing or prospective holder of shares as a result of such shareholder owning a substantial number of shares;
- requiring disclosure of share ownership; or
- governing changes in capital, where such provisions are more stringent than those required by law.

C. Material Contracts

We have employment contracts with each of our officers as summarized in Item 6b. Other than these employment contracts, we have not entered into any other contract other than in the ordinary course of business over the last two years.

D. Exchange Controls

Canada has no system of exchange controls. There are no Canadian restrictions on the repatriation of capital or earnings of a Canadian public company to non-resident investors. There are no laws in Canada or exchange restrictions affecting the remittance of dividends, profits, interest, royalties and other payments to non-resident holders of our securities, except as discussed below in Section E, *Taxation*.

Restrictions on Share Ownership by Non-Canadians

There are no limitations under the laws of Canada or in our organizational documents on the right of foreigners to hold or vote securities of our company, except that the *Investment Canada Act* (the "Investment Canada Act") may require review and approval by the Minister of Industry (Canada) of certain acquisitions of "control" of our Company by a "non-Canadian."

Investment Canada Act

Under the Investment Canada Act, transactions exceeding certain financial thresholds, and which involve the acquisition of control of a Canadian business by a non-Canadian, are subject to review and cannot be implemented unless the Minister of Industry and/or, in the case of a Canadian business engaged in cultural activities, the Minister of Canadian Heritage, are satisfied that the transaction is likely to be of "net benefit to Canada". If a transaction is subject to review (a "Reviewable Transaction"), an application for review must be filed with the Investment Review Division of Industry Canada and/or the Department of Canadian Heritage prior to the implementation of the Reviewable Transaction. The responsible Minister is then required to determine whether the Reviewable Transaction is likely to be of net benefit to Canada taking into account, among other things, certain factors specified in the Investment Canada Act and any written undertakings that may have been given by the applicant. The Investment Canada Act contemplates an initial review period of up to 45 days after filing; however, if the responsible Minister has not completed the review by that date, the Minister may unilaterally extend the review period by up to 30 days (or such longer period as may be agreed to by the applicant and the Minister) to permit completion of the review. Direct acquisitions of control of most Canadian businesses by or from World Trade Organization ("WTO") investors are reviewable under the Investment Canada Act only if, in the case of an acquisition of voting securities, the value of the worldwide assets of the Canadian business or, in the case of an acquisition of substantially all the assets of a Canadian business, the value of those assets exceed C$295 million for the year 2008 (this figure is adjusted annually to reflect inflation). Indirect acquisitions (e.g., an acquisition of a U.S. corporation with a Canadian subsidiary) of control of such businesses by or from WTO investors are not subject to review, regardless of the value of the Canadian businesses' assets. Significantly lower review thresholds apply where neither the investor nor the Canadian business is WTO investor controlled or where the Canadian business is engaged in uranium mining, certain cultural businesses, financial services or transportation services.

Even if the transaction is not reviewable because it does not meet or exceed the applicable financial threshold, the non-Canadian investor must still give notice to Industry Canada and, in the case of a Canadian business engaged in cultural activities, Canadian Heritage, of its acquisition of control of a Canadian business within 30 days of its implementation.

Competition Act

The *Competition Act* (Canada) (the "Competition Act") requires that a pre-merger notification filing be submitted to the Commissioner of Competition (the "Commissioner") in respect of proposed transactions that exceed certain financial and other thresholds. If a proposed transaction is subject to pre-merger notification, a pre-merger notification filing must be submitted to the Commissioner and a waiting period must expire or be waived by the Commissioner before the transaction may be completed. The parties to a proposed transaction may choose to submit either a short-form filing (in respect of which there is a 14-day statutory waiting period) or a long-form filing (in respect of which there is a 42-day statutory waiting period). However, where the parties choose to submit a short-form filing, the Commissioner may, within 14 days, require that the parties submit a long-form filing, in which case the proposed transaction generally may not be completed until 42 days after the long-form filing is submitted by the parties.

The Commissioner may, upon request, issue an advance ruling certificate ("ARC") in respect of a proposed transaction where she is satisfied that she would not have sufficient grounds on which to apply to the Competition Tribunal for an order under the merger provisions of the Competition Act. If the Commissioner issues an ARC in respect of a proposed transaction, the transaction is exempt from the pre-merger notification provisions. In addition, if the transaction to which the ARC relates is substantially completed within one year after the ARC is issued, the Commissioner cannot seek an order of the Competition Tribunal under the merger provisions of the Competition Act in respect of the transaction solely on the basis of information that is the same or substantially the same as the information on the basis of which the ARC was issued.

If the Commissioner is unwilling to issue an ARC, she may nevertheless issue a "no action" letter waiving notification and confirming that she is of the view that grounds do not then exist to initiate proceedings before the Competition Tribunal under the merger provisions of the Competition Act with respect to the proposed transaction, while preserving, during the three years following completion of the proposed transaction, her authority to initiate proceedings should circumstances change.

Regardless of whether pre-merger notification is required, the Commissioner may apply to the Competition Tribunal (a special purpose tribunal) for an order under the merger provisions of the Competition Act. If the Competition Tribunal finds that the transaction is or is likely to prevent or lessen competition substantially, it may order that the parties not proceed with the transaction or part of it or, in the event that the transaction has already been completed, order its dissolution or the disposition of some of the assets or shares involved. In addition, the Competition Tribunal may, with the consent of the person against whom the order is directed and the Commissioner, order that person to take any other action as is deemed necessary to remedy any substantial lessening or prevention of competition that the Competition Tribunal determines would or would likely result from the transaction.

E. Taxation

Canadian Federal Income Taxation

The following discussion is a summary of the principal Canadian federal income tax considerations generally applicable to a holder of our common shares who, at all relevant times, for purposes of the *Income Tax Act* (Canada) (the "Canadian Tax Act") deals at arm's length with, and is not affiliated with, us, holds its common shares as capital property and does not use or hold and is not deemed to use or hold such common shares in carrying on a business in Canada and who, at all relevant times, for purposes of the Canadian Tax Act and the Canada-U.S. Income Tax Convention (the "U.S. Treaty") is resident in the U.S., is not, and is not deemed to be, resident in Canada and is eligible for benefits under the U.S. Treaty (a "U.S. holder"). Special rules, which are not discussed in this summary, may apply to a non-resident holder that is an insurer that carries on an insurance business in Canada and elsewhere. Limited liability companies ("LLCs") that are not taxed as corporations pursuant to the provisions of the Canadian tax code do not qualify as resident in the U.S. for purposes of the U.S. Treaty. Under changes to the U.S. Treaty proposed in the Fifth Protocol to the U.S. Treaty, dated September 21, 2007, as ratified on December 15, 2008 (the "Protocol"), a resident of the United States who is a member of such an LLC will generally be entitled to claim treaty benefits in respect of income, profits or gains derived through the LLC. Such entitlement will commence on the first day of the second month that begins after the Protocol enters into force for withholding tax, and on the first day of the calendar year beginning after the calendar year in which the Protocol enters into force for other taxes. The Protocol will also introduce limitation on benefits rules that will restrict the ability of certain persons who are resident in the United States to claim any or all benefits under the U.S. Treaty. Residents of the United States should consult their own tax advisors with respect to their eligibility for benefits under the U.S. Treaty, having regard to the Protocol.

This summary is based upon the current provisions of the U.S. Treaty, the Canadian Tax Act and the regulations thereunder and our understanding of the current administrative policies and practices of the Canada Revenue Agency published in writing prior to the date hereof. This summary takes into account all specific proposals to amend the U.S. Treaty, the Canadian Tax Act and the regulations thereunder publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the "Tax Proposals"). This summary does not otherwise take into account or anticipate changes in law or administrative practice, whether by judicial, regulatory, administrative or legislative decision or action, nor does it take into account provincial, territorial or foreign tax legislation or considerations, which may differ from those discussed herein.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice generally or to any particular holder. U.S. Holders should consult their own tax advisors with respect to their own particular circumstances.

Gains on Disposition of Common Shares

In general, a U.S. holder will not be subject to Canadian tax on capital gains arising on the disposition of such holder's common shares unless the common shares are "taxable Canadian property" to the U.S. holder and are not "treaty-protected property".

Generally, a common share will not be taxable Canadian property to a U.S. holder at a particular time; provided that (1) such common share is listed on a prescribed stock exchange or, under the Tax Proposals, a designated stock exchange (both of which currently include the NASDAQ and the TSX), (2) the U.S. holder, persons with whom the U.S. holder does not deal with at arm's length, or the U.S. holder together with all such persons, have not owned

25% or more of the issued shares of any class or series of the capital stock of our company at any time during the 60-month period that ends at that time, and (3) the common share is not otherwise deemed to be taxable Canadian property for purposes of the Canadian Tax Act.

common shares will be treaty-protected property where the U.S. holder is exempt from Canadian income tax on the disposition of common shares because of the U.S. Treaty. common shares owned by a U.S. holder will generally be treaty-protected property where the value of the common shares is not derived principally from real property situated in Canada.

Dividends on Common Shares

Dividends paid or credited on the Common Shares or deemed to be paid or credited on the common shares to a U.S. holder that is the beneficial owner of such dividends will generally be subject to non-resident withholding tax under the Canadian Tax Act and the U.S. Treaty at the rate of (1) 5% of the amounts paid or credited if the U.S. holder is a company that owns (or is deemed to own) at least 10% of our voting stock or (2) 15% of the amounts paid or credited in all other cases. The rate of withholding under the Canadian Tax Act in respect of dividends paid to non-residents of Canada is 25% where no tax treaty applies.

U.S. Federal Income Taxation

Certain U.S. Federal Income Tax Consequences

The following is a summary of the anticipated material U.S. federal income tax consequences to a U.S. Holder (as defined below) arising from and relating to the acquisition, ownership, and disposition of Common Shares.

This summary is for general information purposes only and does not purport to be a complete analysis or listing of all potential U.S. federal income tax consequences that may apply to a U.S. Holder as a result of the acquisition, ownership, and disposition of Common Shares. In addition, this summary does not take into account the individual facts and circumstances of any particular U.S. Holder that may affect the U.S. federal income tax consequences of the acquisition, ownership, and disposition of Common Shares. Accordingly, this summary is not intended to be, and should not be construed as, legal or U.S. federal income tax advice with respect to any U.S. Holder. Each U.S. Holder should consult its own financial advisor, legal counsel, or accountant regarding the U.S. federal, U.S. state and local, and foreign tax consequences of the acquisition, ownership, and disposition of Common Shares.

Notice Pursuant To IRS Circular 230: Anything contained in this summary concerning any U.S. federal tax issue is not intended or written to be used, and it cannot be used by a U.S. Holder, for the purpose of avoiding federal tax penalties under the Internal Revenue Code. This summary was written to support the promotion or marketing of the transactions or matters addressed by this Form 20-F. Each U.S. Holder should seek U.S. federal tax advice, based on such U.S. Holder's particular circumstances, from an independent tax advisor.

Scope of this Summary

Authorities

This summary is based on the Internal Revenue Code of 1986, as amended (the "Code"), Treasury Regulations (whether final, temporary, or proposed), published rulings of the Internal Revenue Service ("IRS"), published administrative positions of the IRS, the Convention Between Canada and the United States of America with Respect to Taxes on Income and on Capital, signed September 26, 1980, as amended (the "Canada-U.S. Tax Convention"), and U.S. court decisions that are applicable and, in each case, as in effect and available, as of the date of this Form 20-F. Any of the authorities on which this summary is based could be changed in a material and adverse manner at any time, and any such change could be applied on a retroactive basis. This summary does not discuss the potential effects, whether adverse or beneficial, of any proposed legislation that, if enacted, could be applied on a retroactive basis.

U.S. Holders

For purposes of this summary, a "U.S. Holder" is a beneficial owner of Common Shares that, for U.S. federal income tax purposes, is (a) an individual who is a citizen or resident of the U.S., (b) a corporation, or any other entity classified as a corporation for U.S. federal income tax purposes, that is created or organized in or under the laws of the U.S. or any state in the U.S., including the District of Columbia, (c) an estate if the income of such estate is subject to U.S. federal income tax regardless of the source of such income, or (d) a trust if (i) such trust has validly elected to be treated as a U.S. person for U.S. federal income tax purposes or (ii) a U.S. court is able to exercise primary supervision over the administration of such trust and one or more U.S. persons have the authority to control all substantial decisions of such trust.

Non-U.S. Holders

For purposes of this summary, a "non-U.S. Holder" is a beneficial owner of Common Shares other than a U.S. Holder. This summary does not address the U.S. federal income tax consequences of the acquisition, ownership, and disposition of Common Shares to non-U.S. Holders. Accordingly, a non-U.S. Holder should consult its own financial advisor, legal counsel, or accountant regarding the U.S. federal, U.S. state and local, and foreign tax consequences (including the potential application of and operation of any tax treaties) of the acquisition, ownership, and disposition of Common Shares.

U.S. Holders Subject to Special U.S. Federal Income Tax Rules Not Addressed

This summary does not address the U.S. federal income tax consequences of the acquisition, ownership, and disposition of Common Shares to U.S. Holders that are subject to special provisions under the Code, including the following U.S. Holders: (a) U.S. Holders that are tax-exempt organizations, qualified retirement plans, individual retirement accounts, or other tax-deferred accounts; (b) U.S. Holders that are financial institutions, insurance companies, real estate investment trusts, or regulated investment companies; (c) U.S. Holders that are dealers in securities or currencies or U.S. Holders that are traders in securities that elect to apply a mark-to-market accounting method; (d) U.S. Holders that have a "functional currency" other than the U.S. dollar; (e) U.S. Holders that are liable for the alternative minimum tax under the Code; (f) U.S. Holders that own Common Shares as part of a straddle, hedging transaction, conversion transaction, constructive sale, or other arrangement involving more than one position; (g) U.S. Holders that acquired Common Shares in connection with the exercise of employee stock options or otherwise as compensation for services; (h) U.S. Holders that hold Common Shares other than as a capital asset within the meaning of Section 1221 of the Code; (i) U.S. expatriates or former long-term residents of the U.S.; or (j) U.S. Holders that own, directly, indirectly, or by attribution, 10% or more, by voting power or value, of the outstanding shares of the Company. U.S. Holders that are subject to special provisions under the Code, including U.S. Holders described immediately above, should consult their own financial advisor, legal counsel or accountant regarding the U.S. federal, U.S. state and local, and foreign tax consequences of the acquisition, ownership, and disposition of Common Shares.

If an entity that is classified as a partnership (or "pass-through" entity) for U.S. federal income tax purposes holds Common Shares, the U.S. federal income tax consequences to such partnership (or "pass-through" entity) and the partners of such partnership (or owners of such "pass-through" entity) generally will depend on the activities of the partnership (or "pass-through" entity) and the status of such partners (or owners). Partners of entities that are classified as partnerships (or owners of "pass-through" entities) for U.S. federal income tax purposes should consult their own financial advisor, legal counsel or accountant regarding the U.S. federal income tax consequences of the acquisition, ownership, and disposition of Common Shares.

Tax Consequences Other than U.S. Federal Income Tax Consequences Not Addressed

This summary does not address the U.S. state and local, U.S. federal estate and gift, or foreign tax consequences to U.S. Holders of the acquisition, ownership, and disposition of Common Shares. Each U.S. Holder should consult its own financial advisor, legal counsel, or accountant regarding the U.S. state and local, U.S. federal estate and gift, and foreign tax consequences of the acquisition, ownership, and disposition of Common Shares.

U.S. Federal Income Tax Consequences of the Acquisition, Ownership, and Disposition of Common Shares

Distributions on Common Shares

General Taxation of Distributions

A U.S. Holder that receives a distribution, including a constructive distribution, with respect to the Common Shares will be required to include the amount of such distribution in gross income as a dividend (without reduction for any foreign income tax withheld from such distribution) to the extent of the current or accumulated "earnings and profits" of the Company. To the extent that a distribution exceeds the current and accumulated "earnings and profits" of the Company, such distribution will be treated (a) first, as a tax-free return of capital to the extent of a U.S. Holder's tax basis in the Common Shares and, (b) thereafter, as gain from the sale or exchange of such Common Shares. (See more detailed discussion at "Disposition of Common Shares" below). Dividends paid on the Common Shares generally will not be eligible for the "dividends received deduction."

Reduced Tax Rates for Certain Dividends

For taxable years beginning before January 1, 2011, a dividend paid by the Company generally will be taxed at the preferential tax rates applicable to long-term capital gains if (a) the Company is a "qualified foreign corporation" (as defined below), (b) the U.S. Holder receiving such dividend is an individual, estate, or trust, and (c) certain holding period requirements are met.

The Company generally will be a "qualified foreign corporation" under Section 1(h)(11) of the Code (a "QFC") if (a) the Company is incorporated in a possession of the U.S., (b) the Company is eligible for the benefits of the Canada-U.S. Tax Convention, or (c) the Common Shares are readily tradable on an established securities market in the U.S. However, even if the Company satisfies one or more of such requirements, the Company will not be treated as a QFC if the Company is a "passive foreign investment company" (as defined below) for the taxable year during which the Company pays a dividend or for the preceding taxable year.

As discussed below, the Company believes that it qualified as a PFIC for the taxable year ended December 31, 2008, and based on current business plans and financial projections, the Company anticipates that it may qualify as a PFIC for subsequent taxable years. (See more detailed discussion at "Additional Rules that May Apply to U.S. Holders—Passive Foreign Investment Company" below).

If the Company is not a PFIC, but a U.S. Holder otherwise fails to qualify for the preferential tax rate applicable to dividends discussed above, a dividend paid by the Company to a U.S. Holder, including a U.S. Holder that is an individual, estate, or trust, generally will be taxed at ordinary income tax rates (and not at the preferential tax rates applicable to long-term capital gains). The dividend rules are complex, and each U.S. Holder should consult its own financial advisor, legal counsel, or accountant regarding the dividend rules.

Distributions Paid in Foreign Currency

The amount of a distribution paid to a U.S. Holder in foreign currency generally will be equal to the U.S. dollar value of such distribution based on the exchange rate applicable on the date of receipt. A U.S. Holder that does not convert foreign currency received as a distribution into U.S. dollars on the date of receipt generally will have a tax basis in such foreign currency equal to the U.S. dollar value of such foreign currency on the date of receipt. Such a U.S. Holder generally will recognize ordinary income or loss on the subsequent sale or other taxable disposition of such foreign currency (including an exchange for U.S. dollars).

Disposition of Common Shares

A U.S. Holder will recognize gain or loss on the sale or other taxable disposition of Common Shares in an amount equal to the difference, if any, between (a) the amount of cash plus the fair market value of any property received and (b) such U.S. Holder's tax basis in the Common Shares sold or otherwise disposed of. Subject to the PFIC rules discussed below, any such gain or loss generally will be capital gain or loss, which will be long-term capital gain or

loss if the Common Shares are held for more than one year. Gain or loss recognized by a U.S. Holder on the sale or other taxable disposition of Common Shares generally will be treated as "U.S. source" for purposes of applying the U.S. foreign tax credit rules, unless such gains are resourced as "foreign source" under an applicable income tax treaty, and an election is filed under the Code. (See more detailed discussion at "Foreign Tax Credit" below).

Preferential tax rates apply to long-term capital gains of a U.S. Holder that is an individual, estate, or trust. There are currently no preferential tax rates for long-term capital gains of a U.S. Holder that is a corporation. Deductions for capital losses are subject to significant limitations under the Code.

Foreign Tax Credit

A U.S. Holder who pays (whether directly or through withholding) foreign income tax with respect to dividends paid on the Common Shares generally will be entitled, at the election of such U.S. Holder, to receive either a deduction or a credit for such foreign income tax paid. Generally, a credit will reduce a U.S. Holder's U.S. federal income tax liability on a dollar-for-dollar basis, whereas a deduction will reduce a U.S. Holder's income subject to U.S. federal income tax. This election is made on a year-by-year basis and applies to all foreign taxes paid (whether directly or through withholding) by a U.S. Holder during a year.

Complex limitations apply to the foreign tax credit, including the general limitation that the credit cannot exceed the proportionate share of a U.S. Holder's U.S. federal income tax liability that such U.S. Holder's "foreign source" taxable income bears to such U.S. Holder's worldwide taxable income. In applying this limitation, a U.S. Holder's various items of income and deduction must be classified, under complex rules, as either "foreign source" or "U.S. source." In addition, this limitation is calculated separately with respect to specific categories of income. Dividends paid by the Company generally will constitute "foreign source" income and generally will be categorized as "passive income." The foreign tax credit rules are complex, and each U.S. Holder should consult its own financial advisor, legal counsel, or accountant regarding the foreign tax credit rules.

Information Reporting; Backup Withholding Tax For Certain Payments

Under U.S. federal income tax laws and regulations, certain categories of U.S. Holders must file information returns with respect to their investment in, or involvement in, a foreign corporation. Penalties for failure to file certain of these information returns are substantial. U.S. Hodlers of common shares should consult with their own tax advisors regarding the requirements of filing information returns, and, if applicable, any mark-to-market or QEF election (each as defined below).

Payments made within the U.S., or by a U.S. payor or U.S. middleman, of dividends on, and proceeds arising from certain sales or other taxable dispositions of, Common Shares generally will be subject to information reporting and backup withholding tax, at the rate of 28%, if a U.S. Holder (a) fails to furnish such U.S. Holder's correct U.S. taxpayer identification number (generally on Form W-9), (b) furnishes an incorrect U.S. taxpayer identification number, (c) is notified by the IRS that such U.S. Holder has previously failed to properly report items subject to backup withholding tax, or (d) fails to certify, under penalty of perjury, that such U.S. Holder has furnished its correct U.S. taxpayer identification number and that the IRS has not notified such U.S. Holder that it is subject to backup withholding tax. However, U.S. Holders that are corporations generally are excluded from these information reporting and backup withholding tax rules. Any amounts withheld under the U.S. backup withholding tax rules will be allowed as a credit against a U.S. Holder's U.S. federal income tax liability, if any, or will be refunded, if such U.S. Holder furnishes required information to the IRS. Each U.S. Holder should consult its own financial advisor, legal counsel, or accountant regarding the information reporting and backup withholding tax rules.

Additional Rules that May Apply to U.S. Holders

If the Company is a "controlled foreign corporation" under Section 957 of the Code or a PFIC , the preceding sections of this summary may not describe the U.S. federal income tax consequences to U.S. Holders of the acquisition, ownership, and disposition of Common Shares.

Passive Foreign Investment Company

The Company generally will be a PFIC under Section 1297 of the Code if, for a taxable year, (a) 75% or more of the gross income of the Company for such taxable year is passive income or (b) 50% or more of the assets held by the Company either produce passive income or are held for the production of passive income, based on the fair market value of such assets (or on the adjusted tax basis of

such assets, if the Company is not regularly traded on a public exchange or other market approved by the Secretary of the Treasury and either is a “controlled foreign corporation”

or makes an election). “Gross income” generally means all revenues less cost of goods sold. “Passive income” includes, for example, dividends, interest, certain rents and royalties, certain gains from the sale of stock and securities, and certain gains from commodities transactions. However, for transactions entered into after December 31, 2004, gains arising from the sale of commodities generally are excluded from passive income if substantially all of a foreign corporation’s commodities are (a) stock in trade of such foreign corporation or other property of a kind which would properly be included in inventory of such foreign corporation, or property held by such foreign corporation primarily for sale to customers in the ordinary course of business, (b) property used in the trade or business of such foreign corporation that would be subject to the allowance for depreciation under Section 167 of the Code, or (c) supplies of a type regularly used or consumed by such foreign corporation in the ordinary course of its trade or business.

For purposes of the PFIC income test and asset test described above, if the Company owns, directly or indirectly, 25% or more of the total value of the outstanding shares of another corporation, the Company will be treated as if it (a) held a proportionate share of the assets of such other corporation and (b) received directly a proportionate share of the income of such other corporation. In addition, for purposes of the PFIC income test and asset test described above, “passive income” does not include any interest, dividends, rents, or royalties that are received or accrued by the Company from a “related person” (as defined in Section 954(d)(3) of the Code), to the extent such items are properly allocable to the income of such related person that is not passive income.

In addition, if the Company is a PFIC and owns shares of another foreign corporation that also is a PFIC (a “Subsidiary PFIC”), under certain indirect ownership rules, a disposition of the shares of such other foreign corporation or a distribution received from such other foreign corporation generally will be treated as an indirect disposition by a U.S. Holder or an indirect distribution received by a U.S. Holder, subject to the rules of Section 1291 of the Code discussed below. To the extent that gain recognized on the actual disposition by a U.S. Holder of the common shares or income recognized by a U.S. Holder on an actual distribution received on the common shares was previously subject to U.S. federal income tax under these indirect ownership rules, such amount generally should not be subject to U.S. federal income tax.

The Company believes that it qualified as a PFIC for the taxable year ended December 31, 2008, and based on current business plans and financial projections, the Company anticipates that it may qualify as a PFIC for subsequent taxable years. The determination of whether the Company will be a PFIC for a taxable year depends, in part, on the application of complex U.S. federal income tax rules, which are subject to differing interpretations. In addition, whether the Company will be a PFIC for its current taxable year depends on the assets and income of the Company over the course of each such taxable year and, as a result, cannot be predicted with certainty as of the date of this Form 20-F. Accordingly, there can be no assurance that the IRS will not challenge the determination made by the Company concerning its PFIC status.

Default PFIC Rules Under Section 1291 of the Code

If the Company is a PFIC, the U.S. federal income tax consequences to a U.S. Holder of the acquisition, ownership, and disposition of Common Shares will depend on whether such U.S. Holder makes an election to treat the Company and each Subsidiary PFIC, if any, as a “qualified electing fund” or “QEF” under Section 1295 of the Code (a “QEF Election”) or a mark-to-market election under Section 1296 of the Code (a “Mark-to-Market Election”). A U.S. Holder that does not make either a QEF Election or a Mark-to-Market Election will be referred to in this summary as a “Non-Electing U.S. Holder.”

A Non-Electing U.S. Holder will be subject to the rules of Section 1291 of the Code with respect to (a) any gain recognized on the sale or other taxable disposition of Common Shares and (b) any excess distribution paid on the Common Shares. A distribution generally will be an “excess distribution” to the extent that such distribution (together with all other distributions received in the current taxable year) exceeds 125% of the average distributions received during the three preceding taxable years (or during a U.S. Holder’s holding period for the Common Shares, if shorter).

Under Section 1291 of the Code, any gain recognized on the sale or other taxable disposition of Common Shares, and any excess distribution paid on the Common Shares, must be ratably allocated to each day in a Non-Electing U.S. Holder’s holding period for the Common Shares. The amount of any such gain or excess distribution allocated

to prior years of such Non-Electing U.S. Holder's holding period for the Common Shares (other than years prior to the first taxable year of the Company beginning after December 31, 1986 for which the Company was not a PFIC) will be subject to U.S. federal income tax at the highest tax applicable to ordinary income in each such prior year. A Non-Electing U.S. Holder will be required to pay interest on the resulting tax liability for each such prior year, calculated as if such tax liability had been due in each such prior year. Such a Non-Electing U.S. Holder that is not a corporation must treat any such interest paid as "personal interest," which is not deductible. The amount of any such gain or excess distribution allocated to the current year of such Non-Electing U.S. Holder's holding period for the Common Shares will be treated as ordinary income in the current year, and no interest charge will be incurred with respect to the resulting tax liability for the current year.

If the Company is a PFIC for any taxable year during which a Non-Electing U.S. Holder holds Common Shares, the Company will continue to be treated as a PFIC with respect to such Non-Electing U.S. Holder, regardless of whether the Company ceases to be a PFIC in one or more subsequent years. A Non-Electing U.S. Holder may terminate this deemed PFIC status by electing to recognize gain (which will be taxed under the rules of Section 1291 of the Code discussed above) as if such Common Shares were sold on the last day of the last taxable year for which the Company was a PFIC.

QEF Election

A U.S. Holder that makes a QEF Election generally will not be subject to the rules of Section 1291 of the Code discussed above. However, a U.S. Holder that makes a QEF Election will be subject to U.S. federal income tax on such U.S. Holder's pro rata share of (a) the net capital gain of the Company and each Subsidiary PFIC, which will be taxed as long-term capital gain to such U.S. Holder, and (b) and the ordinary earnings of the Company and each Subsidiary PFIC, which will be taxed as ordinary income to such U.S. Holder. Generally, "net capital gain" is the excess of (a) net long-term capital gain over (b) net short-term capital loss, and "ordinary earnings" are the excess of (a) "earnings and profits" over (b) net capital gain. A U.S. Holder that makes a QEF Election will be subject to U.S. federal income tax on such amounts for each taxable year in which the Company is a PFIC, regardless of whether such amounts are actually distributed to such U.S. Holder by the Company. However, a U.S. Holder that makes a QEF Election may, subject to certain limitations, elect to defer payment of current U.S. federal income tax on such amounts, subject to an interest charge. If such U.S. Holder is not a corporation, any such interest paid will be treated as "personal interest," which is not deductible.

A U.S. Holder that makes a QEF Election generally (a) may receive a tax-free distribution from the Company to the extent that such distribution represents "earnings and profits" of the Company that were previously included in income by the U.S. Holder because of such QEF Election and (b) will adjust such U.S. Holder's tax basis in the Common Shares to reflect the amount included in income or allowed as a tax-free distribution because of such QEF Election. In addition, a U.S. Holder that makes a QEF Election generally will recognize capital gain or loss on the sale or other taxable disposition of Common Shares.

The procedure for making a QEF Election, and the U.S. federal income tax consequences of making a QEF Election, will depend on whether such QEF Election is timely. A QEF Election will be treated as "timely" if such QEF Election is made for the first year in the U.S. Holder's holding period for the Common Shares in which the Company was a PFIC. A U.S. Holder may make a timely QEF Election by filing the appropriate QEF Election documents at the time such U.S. Holder files a U.S. federal income tax return for such first year in respect of the Company and each Subsidiary PFIC, if any. However, if the Company was a PFIC in a prior year, then in addition to filing the QEF Election documents, a U.S. Holder must elect to recognize (a) gain (which will be taxed under the rules of Section 1291 of the Code discussed above) as if the Common Shares were sold on the qualification date or (b) if the Company was also a CFC, such U.S. Holder's pro rata share of the post-1986 "earnings and profits" of the Company as of the qualification date. The "qualification date" is the first day of the first taxable year in which the Company was a QEF with respect to such U.S. Holder. The election to recognize such gain or "earnings and profits" can only be made if such U.S. Holder's holding period for the Common Shares includes the qualification date. By electing to recognize such gain or "earnings and profits," such U.S. Holder will be deemed to have made a timely QEF Election. In addition, under very limited circumstances, a U.S. Holder may make a retroactive QEF Election if such U.S. Holder failed to file the QEF Election documents in a timely manner.

A QEF Election will apply to the taxable year for which such QEF Election is made and to all subsequent taxable years, unless such QEF Election is invalidated or terminated or the IRS consents to revocation of such QEF Election. If a U.S. Holder makes a QEF Election and, in a subsequent taxable year, the Company ceases to be a PFIC, the QEF Election will remain in effect (although it will not be applicable) during those taxable years in which the Company is not a PFIC. Accordingly, if the Company becomes a PFIC in another subsequent taxable year, the QEF Election will be effective and the U.S. Holder will be subject to the QEF rules described above during any such subsequent taxable year in which the Company qualifies as a PFIC. In addition, the QEF Election will remain in effect (although it will not be applicable) with respect to a U.S. Holder even after such U.S. Holder disposes of all of such U.S. Holder's direct and indirect interest in the Common Shares. Accordingly, if such U.S. Holder reacquires an interest in the Company, such U.S. Holder will be subject to the QEF rules described above for each taxable year in which the Company is a PFIC.

For each taxable year that Oncolytics qualifies as a PFIC, Oncolytics will make available to each U.S. Holder that has made a QEF Election, upon written request, a "PFIC Annual Information Statement" as described in Treasury Regulation Section 1.1295-1(g) (or any successor Treasury Regulation) and use commercially reasonable efforts to provide all additional information that such U.S. Holder is required to obtain in connection with maintaining such QEF Election with regard to Oncolytics.

Mark-to-Market Election

A U.S. Holder may make a Mark-to-Market Election only if the Common Shares are marketable stock. The Common Shares generally will be "marketable stock" if the Common Shares are regularly traded on (a) a national securities exchange that is registered with the Securities and Exchange Commission, (b) the national market system established pursuant to section 11A of the Securities and Exchange Act of 1934, or (c) a foreign securities exchange that is regulated or supervised by a governmental authority of the country in which the market is located, provided that (i) such foreign exchange has trading volume, listing, financial disclosure, and other requirements and the laws of the country in which such foreign exchange is located, together with the rules of such foreign exchange, ensure that such requirements are actually enforced and (ii) the rules of such foreign exchange ensure active trading of listed stocks.

A U.S. Holder that makes a Mark-to-Market Election generally will not be subject to the rules of Section 1291 of the Code discussed above. However, if a U.S. Holder makes a Mark-to-Market Election after the beginning of such U.S. Holder's holding period for the Common Shares and such U.S. Holder has not made a timely QEF Election, the rules of Section 1291 of the Code discussed above will apply to certain dispositions of, and distributions on, the Common Shares.

A U.S. Holder that makes a Mark-to-Market Election will include in ordinary income, for each taxable year in which the Company is a PFIC, an amount equal to the excess, if any, of (a) the fair market value of the Common Shares as of the close of such taxable year over (b) such U.S. Holder's tax basis in such Common Shares. A U.S. Holder that makes a Mark-to-Market Election will be allowed a deduction in an amount equal to the lesser of (a) the excess, if any, of (i) such U.S. Holder's adjusted tax basis in the Common Shares over (ii) the fair market value of such Common Shares as of the close of such taxable year or (b) the excess, if any, of (i) the amount included in ordinary income because of such Mark-to-Market Election for prior taxable years over (ii) the amount allowed as a deduction because of such Mark-to-Market Election for prior taxable years.

A U.S. Holder that makes a Mark-to-Market Election generally also will adjust such U.S. Holder's tax basis in the Common Shares to reflect the amount included in gross income or allowed as a deduction because of such Mark-to-Market Election. In addition, upon a sale or other taxable disposition of Common Shares, a U.S. Holder that makes a Mark-to-Market Election will recognize ordinary income or loss (not to exceed the excess, if any, of (a) the amount included in ordinary income because of such Mark-to-Market Election for prior taxable years over (b) the amount allowed as a deduction because of such Mark-to-Market Election for prior taxable years).

A Mark-to-Market Election applies to the taxable year in which such Mark-to-Market Election is made and to each subsequent taxable year, unless the Common Shares cease to be "marketable stock" or the IRS consents to revocation of such election. Each U.S. Holder should consult its own financial advisor, legal counsel, or accountant regarding the availability of, and procedure for making, a Mark-to-Market Election.

Although a U.S. Holder may be eligible to make a Mark-to-Market Election with respect to the Common Shares, no such election may be made with respect to the stock of any Subsidiary PFIC that such U.S. Holder is treated as owning because such stock is not marketable. Hence, the Mark-to-Market Election will not be effective to eliminate the interest charge described above.

Other PFIC Rules

Under Section 1291(f) of the Code, the IRS has issued proposed Treasury Regulations that, subject to certain exceptions, would cause a U.S. Holder that had not made a timely QEF Election to recognize gain (but not loss) upon certain transfers of Common Shares that would otherwise be tax-deferred (e.g., gifts and exchanges pursuant to corporate reorganizations). However, the specific U.S. federal income tax consequences to a U.S. Holder may vary based on the manner in which Common Shares are transferred.

Certain additional adverse rules will apply with respect to a U.S. Holder if the Company is a PFIC, regardless of whether such U.S. Holder makes a QEF Election. For example under Section 1298(b)(6) of the Code, a U.S. Holder that uses Common Shares as security for a loan will, except as may be provided in Treasury Regulations, be treated as having made a taxable disposition of such Common Shares.

Special rules also apply to the amount of foreign tax credit that a U.S. Holder may claim on a distribution from a PFIC.

The PFIC rules are complex, and each U.S. Holder should consult its own financial advisor, legal counsel, or accountant regarding the PFIC rules and how the PFIC rules may affect the U.S. federal income tax consequences of the acquisition, ownership, and disposition of Common Shares.

F. Dividends and Paying Agents

Not Applicable

G. Statements by Experts

Not Applicable

H. Documents on Display

We are subject to the informational requirements of the Exchange Act and file reports and other information with the SEC. You may read and copy any of our reports and other information at, and obtain copies upon payment of prescribed fees from, the Public Reference Room maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. In addition, the SEC maintains a Website that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC at http://www.sec.gov. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

We are required to file reports and other information with the securities commissions in Canada. You are invited to read and copy any reports, statements or other information, other than confidential filings, that we file with the provincial securities commissions. These filings are also electronically available from the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") (http://www.sedar.com), the Canadian equivalent of the SEC's electronic document gathering and retrieval system.

We "incorporate by reference" information that we file with the SEC, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this Form 20-F and more recent information automatically updates and supersedes more dated information contained or incorporated by reference in this Form 20-F.

As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements to shareholders.

We will provide without charge to each person, including any beneficial owner, to whom a copy of this annual report has been delivered, on the written or oral request of such person, a copy of any or all documents referred to above which have been or may be incorporated by reference in this annual report (not including exhibits to such incorporated information that are not specifically incorporated by reference into such information). Requests for such copies should be directed to us at the following address: Oncolytics Biotech Inc., 210 – 1167 Kensington Crescent, NW, Calgary, Alberta, Canada, T2N 1X7, Attention: Doug Ball. Telephone (403) 670 - 7377. Facsimile (403) 283-0858 EMAIL: info@oncolytics.ca.

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Foreign Currency Risk

We operate primarily in Canada, the U.S., and the U.K. Therefore, we are exposed to foreign currency risk associated with our expenses outside of Canada. We do not use financial derivative instruments to manage this market risk.

Interest Rate Risk

The primary objective of our policy for the investment of temporary cash surpluses is the protection of principal, and, accordingly, we generally invest in investment-grade debt securities with varying maturities. As it is our intent and policy to hold these investments until maturity, we do not have a material exposure to interest rate risk.

We do not currently have any long-term debt, nor do we currently utilize interest rate swap contracts to hedge against interest rate risk.

We do not use financial instruments for trading purposes and are not parties to any leverage derivatives. We do not currently engage in hedging transactions. See “Currency and Exchange Rates” and Item 4 – “Information on the Company”.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES.

Not Applicable

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PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES.

None

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS.

A. Modification of Instruments Defining Rights of Security Holders.

None

B. Modification or Issuance of Other Class of Securities.

None

C. Withdrawal or Substitution of Security

None

D. Change of Trustee or Paying Agent

None

E. Use of Proceeds

There has been no change to the information provided in our first annual report on Form 20-F.

ITEM 15. CONTROLS AND PROCEDURES

A. Evaluation of Disclosure Controls and Procedures

It is the conclusion of our Chief Executive Officer and Chief Financial Officer that our Company's disclosure controls and procedures (as defined in Exchange Act rules 13a-15(e) and 15d-15(e)), based on their evaluation of these controls and procedures as of the end of the period covered by this annual report, are effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to the our management, including its Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

B. Management’s Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. As defined in Exchange Act Rule 13a-15(f), internal control over financial reporting is a process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer and effected by the board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP, including a reconciliation to U.S. GAAP, and includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance

with Canadian GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance

regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Management, including the Company's Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2008. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on this assessment, management believes that, as of December 31, 2008, the Company's internal control over financial reporting was effective based on those criteria.

The Company is required to provide an auditor's attestation report on internal control over financial reporting for the fiscal year ended December 31, 2008. In this report, the Company's independent registered auditor, Ernst & Young LLP, must state its opinion as to the effectiveness of the Company's internal control over financial reporting for the fiscal year ended December 31, 2008. Ernst & Young LLP has audited the Company's financial statements included in this annual report on Form 20-F and has issued an attestation report on the Company's internal control over financial reporting.

C. Attestation report of the register public accounting firms

The Auditor Attestation Report is included in the Ernst & Young LLP Independent Auditor's Report, included in the Company's financial statements, beginning on page F-2 of this annual report on Form 20-F.

D. Changes in Internal Controls over Financial Reporting

There were no changes in our internal controls over financial reporting that occurred during the period that is covered by this annual report that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that each of the Audit Committee members, Fred Stewart, Robert Schultz and Jim Dinning, is a financial expert.

ITEM 16B. CODE OF ETHICS

Our Board of Directors has adopted a Code of Ethics for our CEO, CFO and Accounting Officer that applies to our CEO, CFO, and Controller. A copy of this Code of Ethics may be found on the Company's website at http://www.oncolyticsbiotech.com. Requests for such copies should be directed to us at the following address: Oncolytics Biotech Inc., 210 – 1167 Kensington Crescent, NW, Calgary, Alberta, Canada, T2N 1X7, Attention: Doug Ball. Telephone (403) 670 - 7377. Facsimile (403) 283-0858 EMAIL:

info@oncolytics.ca.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit Fees and Services

During the financial years ended December 31, 2008, 2007, and 2006, Ernst & Young LLP received the following fees:

	December 31,		
	2008	2007	2006
Item	$	$	$
Audit fees	140,961	50,825	79,900
Audit-related fees [1],[3],	121,440	82,628	32,260
Tax fees [2]	17,316	11,608	8,214
All other fees [4]	112,352	146,893	—

Notes:

1) Includes review of interim financial statements, accounting consultations and subscription to on-line accounting services.
2) Comprised of tax return preparation, scientific research and development return and other tax consultation fees.
3) Includes fees associated with matters relating to the base shelf prospectus and prospectus offering in 2008, (2007 – prospectus offering).
4) Includes fees associated with the expansion of our corporate structure and a diagnostic examination of International Financial Reporting Standards in 2008 (2007 – examination and anticipated expansion of our corporate structure).

Audit Fees

Audit fees were for professional services rendered by Ernst & Young, LLP for the audit of our annual financial statements and services provided in connection with statutory and regulatory filings or engagements.

Audit-Related Fees

Audit-related fees were for assurance and related services reasonably related to the performance of the audit or review of the annual statements and are not reported under the heading Audit Fees above. These services consisted of accounting consultations, assistance with prospectus filings and assistance with preparations for compliance with section 404 of the *Sarbanes-Oxley Act of 2002*.

Tax Fees

Tax fees were for tax compliance and professional tax consultations.

All Other Fees

Other fees are for products and services other than those described under the headings Audit Fees, Audit-Related Fees and Tax Fees above.

The Audit Committee pre-approves all audit services to be provided to us by our independent auditors. The Audit Committee's policy regarding the pre-approval of non-audit services to be provided to us by our independent auditors is that all such services shall be pre-approved by the Audit Committee or by the Chairman of the Audit Committee, who must report all such pre-approvals to the Audit Committee at their next meeting following the granting thereof. Non-audit services that are prohibited to be provided to us by our independent auditors may not be pre-approved. In addition, prior to the granting of any pre-approval, the Audit Committee or the Chairman, as the

case may be, must be satisfied that the performance of the services in question will not compromise the independence of the independent auditors.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not Applicable

ITEM 16E. PURCHASE OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASES

Not Applicable

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANTS

None

ITEM 16.G. CORPORATE GOVERNANCE

NASDAQ Corporate Governance

Our common shares are quoted for trading on the Nasdaq SmallCap Market ("Nasdaq"). Section 4350 of the Nasdaq Marketplace Rules permits Nasdaq to grant exemptions to a foreign private issuer when provisions of Section 4350 related to qualitative listing requirements are contrary to a law, rule or regulation of any public authority exercising jurisdiction over such issuer or contrary to generally accepted business practices in the issuer's country of domicile. We are organized under the laws of the Province of Alberta and our common shares are listed for trading on The Toronto Stock Exchange. We comply with the laws of the Province of Alberta and rules and regulations of The Toronto Stock Exchange, including rules related to corporate governance practices. A description of the significant ways in which our governance practices differ from those followed by domestic companies pursuant to Section 4350 of the Nasdaq Marketplace Rules is as follows:

Shareholder Meeting Quorum Requirement: The Nasdaq minimum quorum requirement for a shareholder meeting under Section 4350(f) of the Nasdaq Marketplace Rules is one-third of the outstanding shares of common stock. In addition, a company listed on Nasdaq is required to state our quorum requirement in our bylaws. Our quorum requirement is set forth in our corporate bylaws. A quorum for our shareholder meeting is two persons present and being, or representing by proxy, members holding not less than 5% of the issued shares entitled to be voted at such meeting.

The foregoing is consistent with the laws, customs and practices in Canada and the rules of The Toronto Stock Exchange.

PART III

ITEM 17. FINANCIAL STATEMENTS.

We have elected to provide financial statements pursuant to Item 18.

ITEM 18. FINANCIAL STATEMENTS

The financial statements appear on pages F-1 through F-34.

ITEM 19. EXHIBITS.

The following exhibits are filed as part of this annual report:

	Constating Documents
1.1*	Articles of Incorporation
1.2*	By-laws
	Material Contracts
4.1*	Services Agreement, dated October 16, 2002, between the Company and its Senior Vice President, Clinical and Regulatory Affairs, George Gill
4.2*	Amending Agreement No. 1, dated January 6, 2005, to the Services Agreement between the Company and its Senior Vice President, Clinical and Regulatory Affairs, George Gill, dated October 16, 2001
4.3*	Employment Agreement, dated January 12, 2007, between the Company and its Vice President, Intellectual Property, Mary Ann Dillahunty
4.4*	Executive Employment Agreement, dated May 29, 2007, between the Company and its Chief Scientific Officer, Matthew Coffey
4.5*	Executive Employment Agreement, dated May 29, 2007, between the Company and its Chief Medical Officer, Dr. Karl Mettinger
4.6*	Executive Employment Agreement, dated May 30, 2007, between the Company and its Chief Financial Officer, Douglas Ball
4.7*	Executive Employment Agreement, dated June 6, 2007, between the Company and its Chief Executive Officer, Bradley Thompson
4.8*	Amending Agreement No. 1, dated December 3, 2007, to the Employment Agreement between the Company and its Vice President, Intellectual Property, Mary Ann Dillahunty, dated January 12, 2007
4.9*	Amendment No. 1, dated March 7, 2008, to the Executive Employment Agreement between the Company and its Chief Financial Officer, Douglas Ball, dated May 30, 2007
4.10*	Amendment No.1, dated March 7, 2008, between the Company and its Chief Scientific Officer, Matthew Coffey, dated May 29, 2007
4.11*	Amendment No. 1, dated March 7, 2008, to the Executive Employment Agreement between the Company and its Chief Executive Officer, Bradley Thompson, dated June 6, 2007
4.12*	Amendment No. 1, dated March 20, 2008, to the Employment Agreement between the Company and its Vice President, Intellectual Property, Mary Ann Dillahunty, dated January 12, 2007
4.13*	Amendment No. 1, dated March 28, 2008, to the Executive Employment Agreement between the Company and its Chief Medical Officer, Dr. Karl Mettinger, dated May 29, 2007

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4.14*	Amendment No. 2, dated March 31, 2008, to the Services Agreement between the Company and its Senior Vice President, Clinical and Regulatory Affairs, George Gill, dated October 16, 2001
4.15	Executive Employment Agreement, dated January 26, 2009, between the Oncolytics Biotech (U.S.) Inc. and its Chief Medical Officer, Dr. Karl Mettinger
4.16	Executive Employment Agreement, dated January 22, 2009 between the Company and its Vice President, Intellectual Property, Mary Ann Dillahunty.
	Certifications
12.1	Certificate of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2	Certificate of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1	Certificate of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2	Certificate of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(*) Previously filed with the SEC on Form 20-F on May 23, 2008.

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Date: March 6, 2009

ONCOLYTICS BIOTECH INC.

/s/ Brad Thompson	/s/ Doug Ball
Brad Thompson, Ph.D	Doug Ball, CA
Chief Executive Officer	Chief Financial Officer

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Consolidated Financial Statements

Oncolytics Biotech® Inc.

December 31, 2008 and 2007

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

Management is responsible for the preparation and presentation of the consolidated financial statements, Management's Discussion and Analysis ("MD&A") and all other information in the Annual Report.

In management's opinion, the accompanying consolidated financial statements have been properly prepared within reasonable limits of materiality and in accordance with the appropriately selected Canadian generally accepted accounting principles and policies consistently applied and summarized in the consolidated financial statements.

The MD&A has been prepared in accordance with the requirements of securities regulators as applicable to Oncolytics Biotech Inc.

The consolidated financial statements and information in the MD&A generally include estimates that are necessary when transactions affecting the current accounting period cannot be finalized with certainty until future periods. Based on careful judgments by management, such estimates have been properly reflected in the accompanying consolidated financial statements and MD&A. The MD&A also includes information regarding the impact of current transactions and events, sources of liquidity and capital resources and risks and uncertainty. Actual results in the future may differ materially from our present assessment of this information because future events and circumstances may not occur as expected.

Systems of internal controls, including organizational and procedural controls and internal controls over financial reporting, assessed as reasonable and appropriate in the circumstances, are designed and maintained by management to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable records for financial purposes.

We, as the Chief Executive Officer and Chief Financial Officer, will certify to our annual filings with the CSA and the SEC as required in Canada by Multilateral Instrument 52-109 (certification of Disclosure in Issuers' Annual Interim Filings) and in the United States by the *Sarbanes-Oxley Act.*

The external auditors conducted an independent examination of corporate and accounting records in accordance with generally accepted auditing standards to express their opinion on the consolidated financial statements. Their examination included such tests and procedures as they considered necessary to provide reasonable assurance that the consolidated financial statements are presented fairly. The external auditors have full and free access to our Board of Directors and its Committees to discuss audit, financial reporting and related matters.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility through the Audit Committee of the Board. This Committee meets with management and the external auditors to satisfy itself that management's responsibilities are properly discharged and to review the consolidated financial statements and MD&A before they are presented to the Board of Directors for approval.

/s/ Brad Thompson

Brad Thompson, PhD
Chairman, President and CEO

/s/ Doug Ball

Doug Ball, CA
Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of

Oncolytics Biotech Inc.

We have audited the consolidated balance sheets of Oncolytics Biotech Inc. as at December 31, 2008 and 2007 and the consolidated statements of loss and comprehensive loss and cash flows for each of the years in the three year period ended December 31, 2008 and for the cumulative period from inception on April 2, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2008 and the cumulative period from inception on April 2, 1998 in accordance with Canadian generally accepted accounting principles.

As explained in note 3 to the consolidated financial statements, in 2008, the Company adopted the requirements of the Canadian Institute of Chartered Accountants Handbook ("CICA Handbook") Section 3064 "Goodwill and Intangible Assets". In 2007, the Company adopted the requirements of CICA Handbook Section 3855 "Financial Instruments – Recognition and Measurement" and Section 1530 "Other Comprehensive Income".

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Oncolytics Biotech Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 4, 2009, expressed an unqualified opinion thereon.

Calgary, Canada
March 4, 2009 Chartered Accountants

Oncolytics Biotech Inc.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER

FINANCIAL REPORTING

Under the Standards of the Public Company Accounting Oversight Board (United States)

To the Shareholders of

Oncolytics Biotech Inc.

We have audited Oncolytics Biotech Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Oncolytics Biotech Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Oncolytics Biotech Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Oncolytics Biotech Inc. as at December 31, 2008 and 2007 and the consolidated statements of loss and comprehensive loss, and cash flows for each of the years in the three-year period ended December 31, 2008, and for the cumulative period from inception on April 12, 1998, and our report dated March 4, 2009, expressed an unqualified opinion thereon.

Calgary, Canada
March 4, 2009

Chartered Accountants

Oncolytics Biotech Inc.

CONSOLIDATED BALANCE SHEETS

As at December 31

	2008 $	2007 $
		[Restated see note 3]
ASSETS		
Current		
Cash and cash equivalents	**7,429,895**	6,715,096
Short-term investments *[note 17]*	**5,846,634**	18,498,733
Accounts receivable	**86,322**	80,085
Prepaid expenses	**179,668**	260,300
	13,542,519	25,554,214
Property and equipment ***[note 5]***	**263,926**	201,103
Intellectual property ***[note 6]***	**180,750**	542,250
	13,987,195	26,297,567
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	**4,534,111**	2,821,227
Commitments and contingency ***[notes 7, 8, 9 and 15]***		
Shareholders' equity		
Share capital *[note 10]*		
Authorized: unlimited		
Issued: 43,830,748 (2006 - 41,180,748)	**95,234,924**	92,759,665
Warrants *[note 10]*	**3,425,110**	5,346,260
Contributed surplus *[notes 2, 10, 11 and 12]*	**13,349,801**	10,376,962
Deficit *[note 4]*	**(102,556,751)**	(85,006,547)
	9,453,084	23,476,340

	2008 $	2007 $
	13,987,195	26,297,567

See accompanying notes

On behalf of the Board: /s/ *Fred Stewart* Director

/s/ Jim Dinning Director

Oncolytics Biotech Inc.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHESIVE LOSS

For the periods ended December 31

	2008 $	2007 $	2006 $	Cumulative from inception on April 2, 1998 to December 31, 2008 $
		[Restated see note 3]	*[Restated see note 3]*	*[Restated see note 3]*
Revenue				
Rights revenue	—	—	—	310,000
	—	—	—	310,000
Expenses				
Research and development *[note 9]*	**13,351,875**	12,385,743	11,378,998	74,531,777
Operating	**4,311,575**	3,826,195	3,630,144	24,837,025
Stock based compensation *[note 11]*	**64,039**	539,156	403,550	4,768,844
Foreign exchange (gain) loss	**(68,283)**	8,862	35,270	589,427
Amortization - intellectual property	**361,500**	361,500	361,500	3,434,250
Amortization - property and equipment	**48,754**	40,714	52,638	497,151
	18,069,460	17,162,170	15,862,100	108,658,474
Loss before the following	**18,069,460**	17,162,170	15,862,100	108,348,474
Interest income	**(519,256)**	(1,211,744)	(1,233,809)	(6,534,005)
Gain on sale of BCY LifeSciences Inc. ***[note 21]***	**—**	—	—	(299,403)
Loss on sale of Transition Therapeutics Inc.	**—**	—	—	2,156,685
Loss before income taxes	**17,550,204**	15,950,426	14,628,291	103,671,751
Future income tax recovery ***[note 14]***	**—**	—	—	(1,115,000)
Net loss and comprehensive loss for the period	**17,550,204**	15,950,426	14,628,291	102,556,751

	2008 $	2007 $	2006 $	Cumulative from inception on April 2, 1998 to December 31, 2008 $
Basic and diluted loss per share ***[note 13]***	**(0.42)**	(0.39)	(0.40)	

See accompanying notes

Oncolytics Biotech Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the periods ended December 31

	2008 $	2007 $	2006 $	Cumulative from inception on April 2, 1998 to December 31, 2008 $
		[Restated see note 3]	*[Restated see note 3]*	*[Restated see note 3]*
OPERATING ACTIVITIES				
Net loss and comprehensive loss for the period	**(17,550,204)**	(15,950,426)	(14,628,291)	(102,556,751)
Add/(deduct) non-cash items				
Amortization - intellectual property	**361,500**	361,500	361,500	3,434,250
Amortization - property and equipment	**48,754**	40,714	52,638	497,151
Stock based compensation *[note 11]*	**64,039**	539,156	403,550	4,768,844
Other non-cash items *[note 20]*	**—**	—	—	1,383,537
Net change in non-cash working capital *[note 20]*	**1,787,279**	586,964	812,622	4,268,121
Cash used in operating activities	**(15,288,632)**	(14,422,092)	(12,997,981)	(88,204,848)
INVESTING ACTIVITIES				
Acquisition of property and equipment	**(111,577)**	(92,221)	(35,838)	(813,744)
Purchase of short-term investments	**(347,901)**	(949,496)	(1,035,427)	(49,416,864)
Redemption of short-term investments	**13,000,000**	6,573,000	13,808,000	43,151,746
Investment in BCY LifeSciences Inc.	**—**	—	—	464,602
Investment in Transition Therapeutics Inc.	**—**	—	—	2,532,343
Cash provided by (used in) investing activities	**12,540,522**	5,531,283	12,736,735	(4,081,917)
FINANCING ACTIVITIES				
Proceeds from exercise of stock options and warrants	**41,600**	51,000	241,400	15,301,068
Proceeds from private placements	**—**	—	—	38,137,385
Proceeds from public offerings	**3,421,309**	12,063,394	—	46,278,207
Cash provided by financing activities	**3,462,909**	12,114,394	241,400	99,716,660
Net increase (decrease) in cash and cash equivalents during the period	**714,799**	3,223,585	(19,846)	7,429,895

	2008 $	2007 $	2006 $	Cumulative from inception on April 2, 1998 to December 31, 2008 $
Cash and cash equivalents, beginning of period	**6,715,096**	3,491,511	3,511,357	—
Cash and cash equivalents, end of period	**7,429,895**	6,715,096	3,491,511	7,429,895
Cash interest received	**769,529**	1,392,866	940,100	

See accompanying notes

Oncolytics Biotech Inc.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

1. INCORPORATION AND NATURE OF OPERATIONS

Oncolytics Biotech Inc. (the “Company” or “Oncolytics”) was incorporated on April 2, 1998 under the Business Corporations Act (Alberta) as 779738 Alberta Ltd. On April 8, 1998, we changed our name to Oncolytics Biotech Inc.

We are a development stage biopharmaceutical company that focuses on the discovery and development of pharmaceutical products for the treatment of cancers that have not been successfully treated with conventional therapeutics. Our product being developed may represent a novel treatment for Ras mediated cancers which can be used as an alternative to existing cytotoxic or cytostatic therapies, as an adjuvant therapy to conventional chemotherapy, radiation therapy, or surgical resections, or to treat certain cellular proliferative disorders for which no current therapy exists.

2. BASIS OF FINANCIAL STATEMENT PRESENTATION

On April 21, 1999, SYNSORB Biotech Inc. (“SYNSORB”) purchased all of our shares. In connection with this acquisition, the basis of accounting for our assets and liabilities was changed to reflect SYNSORB’s cost of acquiring its interest in such assets and liabilities (i.e. reflecting SYNSORB’s purchase cost in our consolidated financial statements). The amount by which SYNSORB’s purchase price exceeded the underlying net book value of our assets and liabilities at April 21, 1999 was $2,500,000. This amount was credited to contributed surplus and charged to intellectual property and is being amortized to income based on the established amortization policies for such assets. Subsequent to April 21, 1999, SYNSORB’s ownership has been diluted through public offerings of our common shares, sales of our shares by SYNSORB and a distribution of SYNSORB’S ownership interest in the Company to their

shareholders. As a result, SYNSORB no longer has any ownership in the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). These policies are, in all material respects, in accordance with United States generally accepted accounting principles ("U.S. GAAP") except as disclosed in note 22. The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

Principles of consolidation

The consolidated financial statements include our accounts and the accounts of our incorporated subsidiaries, Oncolytics Biotech (Barbados) Inc. and Oncolytics Biotech (U.S.) Inc. All intercompany transactions and balances have been eliminated.

Use of estimates

Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of

contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of expenses during the reporting periods. Actual results could differ from those estimates and such differences could be significant. Significant estimates made by management affecting our consolidated financial statements include the assessment of the net realizable value of long-lived assets and the amortization period of intellectual property.

Property and equipment

Capital assets are recorded at cost. Amortization is provided on bases and at rates designed to amortize the cost of the assets over their estimated useful lives. Amortization is recorded using the declining balance method at the following annual rates:

Office equipment and furniture	20%
Medical equipment	20%
Computer equipment	30%
Leasehold improvements	Straight-line over the term of the lease

Intellectual property

Intellectual property costs relate to the initial acquisition of our business by SYNSORB. These costs are amortized on a straight-line basis over a 10-year period (the expected useful life). We assesses potential impairment of our intellectual property when any event that might give rise to impairment becomes known to us by measuring the expected net recovery from products based on the use of the intellectual property.

Foreign currency translation

Transactions originating in foreign currencies are translated into the functional currency of the entity at the exchange rate in effect at the date of the transaction. Monetary assets and liabilities are translated at the year-end rate of exchange and non-monetary items are translated at historic exchange rates. Exchange gains and losses are included in net loss for the period.

Research and development costs

Research costs are expensed as incurred. Development costs that meet specific criteria related to technical, market and financial feasibility will be capitalized. To date, all of the development costs have been expensed.

Loss per common share

Basic loss per share is determined using the weighted average number of common shares outstanding during the period.

We use the treasury stock method to calculate diluted loss per share. Under this method, diluted loss per share is computed in a manner consistent with basic loss per share except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of options and warrants, if dilutive. The number of additional shares is calculated by assuming that any outstanding “in the money” options and warrants were exercised at the later of the beginning of the period or the date of issue and that

the proceeds from such exercises were used to acquire shares of common stock at the average market price during the reporting period.

Stock option plan

We have one stock option plan (the "Plan") available to officers, directors, employees, consultants and suppliers with grants under the Plan approved from time to time by our Board of Directors (the "Board"). Under the Plan, the exercise price of each option equals the market price of our stock on the date of grant in accordance with Toronto Stock Exchange guidelines. Vesting is provided for at the discretion of the Board and the expiration of options is to be no greater than 10 years from the date of grant.

Stock based compensation

Officers, directors and employees

We use the fair value based method of accounting for employee awards granted under our stock option plan. We calculate the fair value of each stock option grant using the Black Scholes Option Pricing Model and the fair value is recorded over the option's vesting period on a straight line basis.

Non-employees

Stock based compensation to non-employees is recorded at fair market value based on the fair value of the consideration received, or the fair value of the equity instruments granted, or liabilities incurred, whichever is more reliably measurable, on the earlier of the date at which a performance commitment is reached, performance is achieved, or the vesting date of the options.

Financial instruments

Financial assets

Financial assets are comprised of cash and cash equivalents, accounts receivable (mainly goods and services tax receivable), and short-term investments.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and interest bearing deposits with our bank.

Short-term investments

We determine the appropriate classification of our short-term investments at the time of purchase and re-evaluate such designation as of each balance sheet date. Short-term investments can be classified as held-for-trading, available-for-sale or held-to-maturity. Currently, we have classified all of our short-term investments as held-to-maturity as we have the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at original cost, adjusted for amortization of premiums and accretion of discounts to maturity computed under the effective interest rate method. Such amortization and interest on securities classified as held-to-maturity are included in interest income.

Financial liabilities

Financial liabilities are comprised of trade accounts payable.

Future income taxes

We follow the liability method of accounting for income taxes. Under the liability method, future income taxes are recognized for the difference between financial statement carrying values and the respective income tax basis of assets and liabilities (temporary differences). Future income tax assets and liabilities are measured using substantively enacted income tax rates and laws expected to apply in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period of the change.

New Accounting Policies

Adoption of new accounting policies

Intangible assets

On April 1, 2008, we early adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064 *Goodwill and Intangible Assets"*. Pursuant to the transitional provisions set out in Section 3064, we retroactively adopted this standard with restatement.

Prior to the adoption of Section 3064, we accounted for our intellectual property expenditures under CICA Handbook Section 3450 *"Research and Development Costs"*. Section 3450 permitted the capitalization and amortization of intangible assets in order to match the benefit of the intangible asset to the life of the research project.

Section 3064 does not permit the capitalization of certain previously capitalized intellectual property costs. Consequently, these intellectual property expenditures, previously capitalized as intellectual property, are required to be expensed and any previously recorded related amortization charges are to be reversed. The intellectual property costs which remain capitalized and subject to amortization relate to the initial acquisition of our business by SYNSORB.

There has been no change to the treatment of our research and development costs.

Oncolytics Biotech Inc.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

The impact of the early adoption of Section 3064 on our previously reported consolidated balance sheets is as follows:

Consolidated Balance Sheet	December 31, 2007 $	December 31, 2006 $
Intellectual property		
Intellectual property, previously reported	5,026,540	5,079,805
Adjustment, adoption of Section 3064	(4,484,290)	(4,176,055)
Intellectual property, restated	542,250	903,750
Deficit		
Deficit, previously reported	(80,522,257)	(65,030,066)
Adjustment, adoption of Section 3064	(4,484,290)	(4,176,055)
Deficit, restated	(85,006,547)	(69,206,121)

The impact of the early adoption of Section 3064 on our previously reported consolidated statements of loss, comprehensive loss and cash flows is as follows:

Consolidated Statements of Loss and Comprehensive Loss	Year ended December 31, 2007 $	Year ended December 31, 2006 $	Cumulative from inception on April 2, 1998 to December 31, 2007
Net loss and comprehensive loss, previously reported	15,642,191	14,297,524	80,522,257
Adjustment, adoption of Section 3064	308,235	330,767	4,484,290
Net loss and comprehensive loss, restated	15,950,426	14,628,291	85,006,547
Basic and diluted loss per share, previously reported	(0.39)	(0.39)	—

Consolidated Statements of Loss and Comprehensive Loss	Year ended December 31, 2007 $	Year ended December 31, 2006 $	Cumulative from inception on April 2, 1998 to December 31, 2007
Basic and diluted loss per share, restated	(0.39)	(0.40)	—

Oncolytics Biotech Inc.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

Consolidated Statements of Cash Flows	**Year ended December 31, 2007 $**	**Year ended December 31, 2006 $**	**Cumulative from inception on April 2, 1998 to December 31, 2007**
Operating activities, previously reported	(13,569,594)	(12,155,372)	(66,551,036)
Adjustment, adoption of Section 3064	(852,498)	(842,610)	(6,365,180)
Operating activities, restated	(14,422,092)	(12,997,982)	(72,916,216)
Investing activities, previously reported	4,678,785	11,894,126	(22,987,619)
Adjustment, adoption of Section 3064	852,498	842,610	6,365,180
Investing activities, restated	5,531,283	12,736,736	(16,622,439)

Capital Disclosures

On January 1, 2008, we adopted the new recommendations of the CICA for disclosure of our objectives, policies and processes for managing capital (CICA Handbook Section 1535), as discussed further in Note 16.

Financial Instruments – Disclosures

On January 1, 2008, we adopted the new recommendations of the CICA for disclosures about financial instruments, including disclosures about fair value and the credit, liquidity and market risks associated with financial instruments (CICA Handbook Section 3862), as discussed further in Notes 17 and 18.

Financial Instruments – Presentation

On January 1, 2008, we adopted the new recommendations of the CICA for presentation of financial instruments (CICA Handbook Section 3863). Adoption of this standard had no impact on our financial instrument related presentation disclosures.

Future Accounting Changes

International Financial Reporting Standards

In 2006, the CICA announced that accounting standards in Canada will converge with International Financial Reporting Standards ("IFRS"). IFRS uses a conceptual framework similar to Canadian GAAP, but there could be significant differences on recognition, measurement and disclosures that will need to be addressed.

Oncolytics Biotech Inc.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

In April 2008, the Accounting Standards Board in Canada published the exposure draft “Adopting IFRSs in Canada”. The exposure draft proposes to incorporate the IFRS into the CICA Accounting Handbook effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. At this date, publicly accountable enterprises will be required to prepare financial statements in accordance with IFRS on a retrospective basis. The exposure draft makes possible the early adoption of IFRS by Canadian entities.

In June 2008, the Canadian Securities Administrators (“CSA”) published a staff notice that stated it is prepared to recommend exemptive relief on a case by case basis to permit a domestic Canadian issuer to prepare its financial statements in accordance with IFRS for a financial period beginning before January 1, 2011. The U.S. Securities and Exchange Commission (“SEC”) issued a final rule in January 2008 that would allow some foreign private issuers to use IFRS, without reconciliation to U.S. GAAP, effective for certain 2007 financial statements.

We have commenced the process to transition from current Canadian GAAP to IFRS. Our transition plan, which in certain cases will be in process concurrently as IFRS is applied, includes the following three phases:

- Scoping and diagnostic phase — This phase involves performing a high-level diagnostic assessment to identify key areas that may be impacted by the transition to IFRS. As a result of the diagnostic assessment, the potentially affected areas are ranked as high, medium or low priority.

- Impact analysis, evaluation and design phase — In this phase, each area identified from the scoping and diagnostic phase will be addressed in order of descending priority. This phase involves specification of changes required to existing accounting policies, information systems and business processes, together with an analysis of policy alternatives allowed under IFRS.

- Implementation and review phase — This phase includes execution of changes to information systems and business processes, completing formal authorization processes to approve recommended accounting policy changes and training. At the end of the implementation and review phase we will be able to compile financial statements compliant with IFRS.

In 2008, we finalized the scoping and diagnostic phase of our transition plan through a diagnostic assessment of the potential impact IFRS will have on our accounting policies. Our diagnostic review identified differences and issues that may impact the Company which centers primarily upon:

IFRS 1 – relates to the first time adoption and includes optional exemptions that must be considered

-
- Financial statement presentation and certain disclosures
- Income taxes
- Impairment of long-lived assets including goodwill and intangibles
- Stock based compensation

These differences exist based on Canadian GAAP and IFRS today. The regulatory bodies that establish Canadian GAAP and IFRS have significant ongoing projects that could affect the ultimate differences that impact our consolidated financial statements in future years.

Oncolytics Biotech Inc.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

In 2009, we plan to examine the areas identified by our diagnostic review and commence the impact analysis, evaluation and design phase of our transition plan.

4. DEFICIT

	Amount
	$
Restated balance, December 31, 2006 *[note 3]*	69,206,121
Adjustment – Alberta Heritage Foundation loan	(150,000)
Restated net loss and comprehensive loss for the year *[note 3]*	15,950,426
Restated balance, December 31, 2007 *[note 3]*	85,006,547
Net loss and comprehensive loss for the year	17,550,204
Balance, December 31, 2008	**102,556,751**

1. On January 1, 2007, the Company adopted, without restatement, CICA Handbook Section 3855 *"Financial Instruments – Recognition and Measurement"*. Pursuant to the transitional provisions of Section 3855, we recorded our Alberta Heritage Foundation interest free loan at fair value (Note 7). As a result, there were no adjustments made to short-term investments or other comprehensive income and there was a decrease in the Alberta Heritage Foundation loan of $150,000 with a corresponding decrease of $150,000 in the Company's deficit.

5. PROPERTY AND EQUIPMENT

	2008		
	Cost	**Accumulated Amortization**	**Net Book Value**
	$	$	$
Medical equipment	**100,816**	**35,592**	**65,224**
Office equipment	**36,385**	**24,910**	**11,475**
Office furniture	**108,315**	**67,926**	**40,389**
Computer equipment	**264,631**	**156,552**	**108,079**
Leasehold improvements	**139,616**	**100,857**	**38,759**
	649,763	**385,837**	**263,926**

Oncolytics Biotech Inc.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

	2007		
	Cost	**Accumulated Amortization**	**Net Book Value**
	$	$	$
Medical equipment	100,816	21,016	79,800
Office equipment	34,965	22,445	12,520
Office furniture	99,730	61,860	37,870
Computer equipment	202,845	131,932	70,913
Leasehold improvements	99,830	99,830	—
	538,186	337,083	201,103

6. INTELLECTUAL PROPERTY

	2008		
	Cost	**Accumulated Amortization**	**Net Book Value**
	$	$	$
Intellectual property	**3,615,000**	**3,434,250**	**180,750**

	2007		
	Cost	**Accumulated Amortization**	**Net Book Value**
	$	$	$
Intellectual property	3,615,000	3,072,750	542,250

7. ALBERTA HERITAGE FOUNDATION LOAN

We received a loan of $150,000 from the Alberta Heritage Foundation for Medical Research. Pursuant to the terms of the agreement, the Company is required to repay this amount in annual installments from the date of commencement of sales in an amount equal to the lesser of: (a) 5% of the gross sales generated by the Company; or (b) $15,000 per annum until the entire loan has been paid in full.

8. COMMITMENTS

We are committed to payments totaling $1,511,000 during 2009 for activities related to our clinical trial program and collaborations.

We are committed to monthly rental payments (excluding our portion of operating costs) of $7,453 under the terms of a lease for office premises, which expires on May 31, 2011.

Under a clinical trial agreement entered into with the Alberta Cancer Board ("ACB"), we have agreed to repay the amount funded under the agreement together with a royalty, to a combined maximum amount of $400,000 plus an overhead repayment of $100,000, upon sales of a specified product. We agreed to repay the ACB in annual installments in an amount equal to the lesser of: (a) 5% of gross sales of a specified product; or (b) $100,000 per annum.

9. CONTINGENCY

During 1999, the Company entered into an agreement that assumed certain obligations (the "Assumption Agreement") in connection with a Share Purchase Agreement (the "Agreement") between SYNSORB and the former shareholders of the Company to make milestone payments and royalty payments.

As of December 31, 2008, a milestone payment was still outstanding for $1.0 million, due within 90 days of the first receipt from an Appropriate Regulatory Authority, for marketing approval to sell REOLYSIN® to the public or the approval of a new drug application for REOLYSIN®.

This milestone payment, when payable, will be accounted for as research and development expense and will not be deductible for income tax purposes.

In addition to the milestone payment, payments may become due and payable in accordance with the Agreement upon realization of sales of REOLYSIN®. In 2003, the Company completed amendments and revisions to the contingent obligations to its five founding shareholders with respect to these other contingent payments. The amendments and revisions reduced the amount and clarified the determination of potential obligations of the Company to these shareholders arising from the Agreement and Assumption Agreement entered into in 1999. Also, on September 23, 2004, the Company reached an agreement that further reduced its contingent payments to its founding shareholders through the cancellation of a portion of these contingent payments from one of its non-management founding shareholders. The consideration paid by the Company consisted of $250,000 cash and 21,459 common shares valued at $150,000 and has been recorded as research and development expense. The value of the common shares was based on the closing market price on September 23, 2004.

As a result of the amendments and the cancellation agreement, if the Company receives royalty payments or other payments as a result of entering into partnerships or other arrangements for the development of the reovirus technology, the Company is obligated to pay to the founding shareholders 11.75% (formerly in 2003 – 14.25% and 2002 – 20%) of the royalty payments and other payments received. Alternatively, if the Company develops the reovirus treatment to the point where it may be marketed at a commercial level, the payments referred to in the foregoing sentence will be amended to a royalty payment of 2.35% (formerly in 2003 – 2.85% and 2002 – 4%) of Net Sales received by the Company for such products.

Oncolytics Biotech Inc.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

10. SHARE CAPITAL
Authorized:

Unlimited number of no par value common shares

Issued:	**Shares**		**Warrants**	
	Number	**Amount $**	**Number**	**Amount $**
Balance, December 31, 1998	2,145,300	4	—	—
Issued on exercise of stock options	76,922	77	—	—
	2,222,222	81	—	—
July 29, 1999 share split[a]	6,750,000	81	—	—
Issued for cash pursuant to July 30, 1999 private placement (net of share issue costs of $45,000)[b]	1,500,000	855,000	—	—
Issued for cash pursuant to August 24, 1999 private placement	1,399,997	1,049,998	—	—
Issued on initial public offering (net of share issue costs of $317,897)[c]	4,000,000	3,082,103	—	—
Issued for cash pursuant to exercise of share purchase warrants	20,000	15,000	—	—
Balance, December 31, 1999	13,669,997	5,002,182	—	—
Issued on exercise of stock options and warrants	573,910	501,010	—	—
Issued for cash pursuant to July 17, 2000 private placement[d]	244,898	2,998,645	—	—
Issued on public offering (net of share issue costs of $998,900)[e]	3,000,000	13,101,100	—	—
Balance, December 31, 2000	17,488,805	21,602,937	—	—
Issued on exercise of stock options and warrants	1,702,590	2,210,016	—	—
Balance, December 31, 2001	19,191,395	23,812,953	—	—

Issued:	Shares		Warrants	
Issued on exercise of stock options	40,000	34,000	—	—

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Issued:	**Shares**		**Warrants**	
	Number	**Amount $**	**Number**	**Amount $**
Issued on acquisition of the interest in Transition Therapeutics Inc.	1,913,889	4,689,028	—	—
Issued for cash pursuant to December 11, 2002 private placement[f]	1,000,000	1,896,714	550,000	114,286
Share issue costs	—	(241,123)	—	—
Balance, December 31, 2002	22,145,284	30,191,572	550,000	114,286
Issued for cash pursuant to February 10, 2003 private placement[g]	140,000	265,540	77,000	16,000
Issued for cash pursuant to June 19, 2003 private placement[h]	2,120,000	5,912,113	1,272,000	543,287
Issued for cash pursuant to August 21, 2003 private placement[i]	1,363,900	3,801,778	813,533	349,176
Issued for cash pursuant to October 14, 2003 public offering[j]	1,200,000	5,528,972	720,000	617,428
Exercise of options	64,700	149,615	—	—
Exercise of warrants	174,378	593,194	(174,378)	(41,927)
Share issue costs	—	(1,730,195)	—	—
Balance, December 31, 2003	27,208,262	44,712,589	3,258,155	1,598,250
Issued for cash pursuant to April 7, 2004 private placement[k]	1,077,100	5,924,050	646,260	1,028,631
Issued for cash pursuant to pursuant to November 23, 2004 public offering[l]	1,504,000	8,693,120	864,800	1,521,672
Issued pursuant to cancellation of contingent payment *[note 9]*	21,459	150,000	—	—
Exercise of warrants	1,907,175	8,178,546	(1,907,175)	(798,096)
Expired warrants	—	—	(6,700)	(2,827)
Exercise of options	197,500	778,951	—	—
Share issue costs	—	(1,796,758)	—	—
Balance, December 31, 2004	31,915,496	66,640,498	2,855,340	3,347,630

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Issued:	**Shares**		**Warrants**	
	Number	**Amount $**	**Number**	**Amount $**
Issued for cash pursuant to December 29, 2005 private placement[(m)]	3,200,000	14,176,000	1,920,000	2,908,800
Exercise of warrants	771,252	3,417,271	(771,252)	(329,984)
Expired warrants	—	—	(1,219,288)	(1,496,514)
Exercise of options	350,000	297,500	—	—
Share issue costs	—	(1,689,398)	—	—
Balance, December 31, 2005	36,236,748	82,841,871	2,784,800	4,429,932
Exercise of options	284,000	241,400	—	—
Expired warrants	—	—	(112,800)	(213,192)
Balance, December 31, 2006	36,520,748	83,083,271	2,672,000	4,216,740
Issued for cash pursuant to February 22, 2007 public offering[(n)]	4,600,000	11,362,000	2,300,000	2,438,000
Exercise of options	60,000	51,000	—	—
Expired warrants	—	—	(752,000)	(1,308,480)
Share issue costs	—	(1,736,606)	—	—
Balance, December 31, 2007	41,180,748	92,759,665	4,220,000	5,346,260
Issued for cash pursuant to December 5, 2008 public offering[(o)]	2,650,000	3,127,000	2,915,000	946,050
Expired warrants	—	—	(1,920,000)	(2,908,800)
Warrants[(p)]	—	—	320,000	41,600
Share issue costs	—	(651,741)	—	—
Balance, December 31, 2008	**43,830,748**	**95,234,924**	**5,535,000**	**3,425,110**

(a) Pursuant to subsection 167(1)(f) of the Business Corporations Act (Alberta), the Articles of the Company were amended by subdividing the 2,222,222 issued and outstanding common shares of the Company into 6,750,000 common shares.

(b) Pursuant to a private placement, 1,500,000 common share purchase warrants were issued entitling the holders thereof to acquire one additional share at $0.75 per share until November 8, 2001. At December 31, 2001, all of the warrants had been exercised.

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(c) Pursuant to the initial public offering, the agent was issued common share purchase warrants entitling it to acquire 400,000 common shares at $0.85 per share until May 8, 2001. At December 31, 2001, all of the warrants had been exercised.

(d) Pursuant to a private placement, 244,898 common shares were issued at an issue price of $12.25 per share net of issue costs of $1,355.

(e) Pursuant to a special warrant offering, we sold 3,000,000 special warrants for $4.70 per warrant for net proceeds of $13,101,100. Each warrant entitled the holder to one common share upon exercise. At December 31, 2001, all of the warrants had been exercised.

(f) Pursuant to a private placement, 1,000,000 units were issued at an issue price of $2.00 per unit net of issue costs of $241,123. Each unit included one common share (ascribed value of $1.897) and one-half of one common share purchase warrant (ascribed value of $0.103) for a total of 500,000 warrants. Each whole common share purchase warrant entitled the holder to acquire one common share in the capital of the Company upon payment of $3.00 per share until June 11, 2004. In addition, we issued 50,000 common share purchase warrants on the same terms to the brokerage firm assisting with the transaction. The ascribed value of these broker warrants was $11,000 ($0.22 per broker warrant) and has been included in the issue costs. The ascribed values of the warrants were based on the Black Scholes Option Pricing Model (“Black Scholes”).

(g) Pursuant to a private placement, 140,000 units were issued at an issue price of $2.00 per unit net of issue costs of $37,369. Each unit included one common share (ascribed value of $1.897) and one-half of one common share purchase warrant (ascribed value of $0.103) for a total of 70,000 warrants. Each whole common share purchase warrant entitled the holder to acquire one common share in the capital of the Company upon payment of $3.00 per share until August 10, 2004. In addition, we issued 7,000 common share purchase warrants on the same terms to the brokerage firm assisting with the transaction. The ascribed value of these broker warrants was $1,540 ($0.22 per broker warrant) and has been included in the issue costs. The ascribed values of the warrants were based on the Black Scholes.

(h) Pursuant to a private placement, 2,120,000 units were issued at an issue price of $3.00 per unit net of issue costs of $637,986. Each unit included one common share (ascribed value of $2.789) and one-half of one common share purchase warrant (ascribed value of $0.211) for a total of 1,060,000 warrants. Each whole common share purchase warrant entitled the holder to acquire one common share in the capital of the Company upon payment of $4.00 per share until December 19, 2004. In addition, we issued 212,000 common share purchase warrants on the same terms to the brokerage firms assisting with the transaction. The ascribed value of these broker warrants was $95,400 ($0.45 per broker warrant) and has been included in the issue costs. The ascribed values of the warrants were based on the Black Scholes.

(i) Pursuant to a private placement, 1,363,900 common shares and 681,943 common share purchase warrants were issued for gross proceeds of $4,091,738. Each common share and whole common share purchase warrant have ascribed values of $2.787 and $0.425, respectively. Each common share purchase warrant entitled the holder to acquire one common share in the capital of the Company upon payment of $4.00 per share until February 21, 2005. Share issue costs related to this private placement were $367,839. In addition, we issued 131,590 common share purchase warrants on the same terms to the advisors assisting with the transaction. The ascribed value of these additional warrants was

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$59,216 ($0.45 per additional warrant) and has been included in the issue costs. The ascribed values of the warrants were based on the Black Scholes.

(j) Pursuant to a public offering, 1,200,000 units were issued at an issue price of $5.00 per unit net of issue costs of $687,001. Each unit included one common share (ascribed value of $4.607) and one-half of one common share purchase warrant (ascribed value of $0.393) for a total of 600,000 warrants. Each whole common share purchase warrant entitled the holder to acquire one common share in the capital of the Company upon payment of $6.25 per share until April 14, 2005. In addition, we issued 120,000 common share purchase warrants with an exercise price of $5.00 that expires on April 14, 2005 to the brokerage firms assisting with the transaction. The ascribed value of these broker warrants was $146,400 ($1.19 per broker warrant) and has been included in the issue costs. The ascribed values of the warrants were based on the Black Scholes.

(k) Pursuant to a private placement, the Company sold 1,077,100 units at an average price of $6.25 per unit for gross cash proceeds of $6,731,875. The units were comprised of 1,077,100 common shares and 538,550 common share purchase warrants and have ascribed values of $5.50 and $1.50, respectively. Each common share purchase warrant entitled the holder to acquire one common share in the capital of the Company upon payment of $7.75 per share until October 7, 2005. Share issue costs related to the private placement were $728,918. In addition, we issued 107,710 common share purchase warrants to its advisor entitling the holder to acquire one common share of the capital of the Company upon payment of $7.00 per share until October 7, 2005. The ascribed value of these additional warrants was $220,806 ($2.05 per additional warrant) and has been included in the share issue costs above. The ascribed values of the warrants were based on the Black Scholes.

(l) Pursuant to a public offering, the Company sold 1,504,000 units at an issue price of $6.65 per unit for gross cash proceeds of $10,001,600. Each unit included one common share (ascribed value of $5.78) and one-half of one common share purchase warrant (ascribed value of $0.87) for a total of 752,000 warrants. Each whole common share purchase warrant entitled the holder to acquire one common share in the capital of the Company upon payment of $8.00 per share until November 23, 2007. Share issue costs related to this public offering were $1,063,890. In addition, we issued 112,800 common share purchase warrants with an exercise price of $7.06 that expires on May 23, 2006 to the brokerage firm assisting with the transaction. The ascribed value of these broker warrants was $213,192 ($1.89 per broker warrant) and has been included in the share issue costs above. The ascribed values of the warrants were based on the Black Scholes.

(m) Pursuant to a private placement, 3,200,000 units were issued at an issue price of $5.15 per unit net of issue costs of $1,689,398. Each unit included one common share (ascribed value of $4.43) and one-half of one common share purchase warrant (ascribed value of $0.72) for a total of 1,600,000 warrants. Each whole common share purchase warrant entitled the holder to acquire one common share in the capital of the Company upon payment of $6.15 per share until December 29, 2008. In addition, we issued 320,000 common share purchase warrants with an exercise price of $5.65 expiring on December 29, 2008. The ascribed value of these broker warrants was $604,800 ($1.89 per broker warrant) and has been included in the issue costs. The ascribed values of the warrants were based on the Black Scholes.

(n) Pursuant to a public offering, 4,600,000 units were issued at an issue price of $3.00 per unit for gross proceeds of $13,800,000. Each unit included one common share (ascribed value of $2.47) and one-half of one common share purchase warrant (ascribed value of $0.53) for a total of 2,300,000 warrants. The

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ascribed value was determined using the relative fair value method. Each whole common share purchase warrant entitles the holder to acquire one common share in the capital of the Company upon payment of $3.50 per share until February 22, 2010. Share issue costs for this offering were $1,736,606. The ascribed values of the warrants were based on the Black Scholes.

(o) Pursuant to a public offering, 2,650,000 units were issued at an issue price of $1.50 per unit for gross proceeds of $3,975,000. Each unit included one common share (ascribed value of $1.18) and one- common share purchase warrant (ascribed value of $0.32). The ascribed value was determined using the relative fair value method. Each common share purchase warrant entitles the holder to acquire one common share in the capital of the Company upon payment of $1.80 per share until December 5, 2011 subject to acceleration of the expiry date under certain circumstances. Share issue costs for this offering were $651,741. In addition, we issued 265,000 broker common share purchase warrants with an exercise price of $1.80 expiring on December 5, 2011 subject to acceleration of the expiry date under certain circumstances. The ascribed value of these broker warrants was $98,050 ($0.37 per broker warrant) and has been included in the share issue costs. The ascribed values of the warrants were based on the Black Scholes.

(p) On December 18, 2008, we amended the terms of 320,000 previously issued broker warrants for cash consideration of $41,600. The amendments included adjusting the exercise price from $5.65 to $1.80 and extending the expiry date from December 29, 2008 to December 29, 2009, subject to acceleration of the expiry date in certain circumstances.

The following table summarizes the weighted average assumptions used in the Black Scholes Option Pricing Model with respect to the valuation of warrants and broker warrants issued in those years:

	2008	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**
Risk-free interest rate	**1.68%**	4.08%	**—**	3.82%	2.82%	3.01%	3.41%
Expected hold period to exercise	**2.00**	3.00	**—**	1.92	1.39	0.76	1.00
Volatility in the price of the Company’s shares	**55.6%**	63%	**—**	66%	71%	72%	57%
Dividend yield	Zero	Zero	**—**	Zero	Zero	Zero	Zero

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The following table summarizes our outstanding warrants as at December 31, 2008:

Exercise Price	Outstanding, Beginning of the Year	Granted During the Year	Exercised During the Year	Expired During the Year	Outstanding, End of Year	Weighted Average Remaining Contractual Life (years)
$1.80	—	3,235,000	—	—	3,235,000	2.73
$3.50	2,300,000	—	—	—	2,300,000	1.15
$5.65	320,000	—	—	320,000	—	—
$6.15	1,600,000	—	—	1,600,000	—	—
	4,220,000	3,235,000	—	1,920,000	5,535,000	2.19

11. STOCK BASED COMPENSATION
Stock Option Plan

We have issued stock options to acquire common stock through our stock option plan of which the following are outstanding at December 31:

	2008		2007	
	Stock Options	Weighted Average Share Price $	Stock Options	Weighted Average Share Price $
Outstanding, at the beginning of year	**3,870,493**	**4.61**	3,537,950	4.88
Granted during the year	**15,500**	**1.45**	532,543	2.43
Cancelled during the year	**—**	**—**	(140,000)	2.90
Exercised during the year	**—**	**—**	(60,000)	0.85
Outstanding, at the end of year	**3,885,993**	**4.59**	3,870,493	4.61
Options exercisable at the end of year	**3,747,293**	**4.65**	3,661,943	4.69

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The following table summarizes information about the stock options outstanding and exercisable at December 31, 2008:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Wdighted Average Exercise Price $	Number Exercisable	Weighted Average Exercise Price $
$0.75 - $1.00	258,550	0.8	0.85	258,550	0.85
$1.45 - $2.37	806,443	7.2	2.08	780,243	2.09
$2.70 - $3.33	800,250	5.4	3.15	700,250	3.14
$4.00 - $5.00	1,208,250	5.8	4.86	1,195,750	4.86
$6.77 - $9.76	684,500	3.1	8.67	684,500	8.67
$12.15 - $13.50	128,000	1.8	12.69	128,000	12.69
	3,885,993	5.1	4.59	3,747,293	4.65

The outstanding options vest annually or after the completion of certain milestones. We have reserved 3,992,075 common shares for issuance relating to outstanding stock options.

As we are following the fair value based method of accounting for stock option awards, compensation expense related to options granted to employees was $64,039 (2007 – $539,156, 2006 – $403,550) with an offsetting credit to contributed surplus. There were no options issued to consultants for the years 2008, 2007 and 2006.

The estimated fair value of stock options issued during the year was determined using the Black Scholes Option Pricing Model using the following weighted average assumptions and fair value of options:

	2008	2007	2006
Risk-free interest rate	**1.85%**	3.91%	4.08%
Expected hold period to exercise	**4.0 years**	3.5 years	3.5 years
Volatility in the price of the Company’s shares	**56%**	56%	63%
Dividend yield	**Zero**	Zero	Zero
Weighted average fair value of options	**$0.60**	$0.94	$1.46

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12. CONTRIBUTED SURPLUS

The following table summarizes the change in contributed surplus as at and for the year ended December 31:

	2008	2007
Balance, beginning of the year	10,376,962	8,529,326
Stock based compensation	64,039	539,156
Expired warrants	2,908,800	1,308,480
Exercise of stock options	—	—
Balance, end of the year	13,349,801	10,376,962

13. LOSS PER COMMON SHARE

Loss per common share is calculated using the weighted average number of common shares outstanding for the year ended December 31, 2008 of 41,369,515 (2007 – 40,428,825; 2006 – 36,346,266). The effect of any potential exercise of our stock options and warrants outstanding during the year has been excluded from the calculation of diluted earnings per share, as it would be anti-dilutive.

14. INCOME TAXES

The recovery of income taxes recorded in the consolidated financial statements differs from the amount which would be obtained by applying the statutory income tax rate to the loss before income taxes as follows:

	2008 $	2007 $	2006 $
Loss before income taxes	**(17,550,204)**	(15,950,426)	(14,628,291)
Statutory Canadian corporate tax rate	**29.50**%	32.12%	29.00%
Anticipated tax recovery	**(5,177,310)**	(5,123,277)	(4,242,204)
Foreign jurisdiction tax rate difference	**373,868**	—	—
Employee stock based compensation	**18,892**	156,355	117,030
Change in tax rate	**—**	465,321	2,276,597
Tax return adjustment	**(290,082)**	(314,156)	(5,414)
Non-deductible expenses	**11,456**	9,311	10,440
Change in valuation allowance	**5,063,176**	4,806,446	1,843,551
Future income tax recovery	**—**	—	—

As at December 31, 2008, we have non-capital losses for income tax purposes of approximately $29,192,000 which are available for application against future taxable income and expire in 2015 ($4,096,000), 2026 ($11,103,000) and 2027 (13,993,000). As of December 31, 2008, we have non-refundable federal investment tax credits of approximately $3,630,000 (2007 – $3,054,000) which are

available to reduce future taxes payable. We have unclaimed scientific research and experimental development expenditures available to reduce future years' taxable income of approximately $16,884,000

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(2007 – $13,504,000) over an indefinite future period. We have not recorded the potential benefits of these tax pools in the consolidated financial statements.

The components of our future income tax asset are as follows:

	2008 **$**	**2007** **$**
Net operating losses carried forward	**8,491,910**	16,045,857
Scientific research and experimental development	**4,896,279**	3,376,086
Investment tax credits	**2,648,479**	2,290,784
Net capital loss carryforwards	**—**	249,189
Undepreciated capital costs in excess of book value of property and equipment and intellectual property	**106,782**	727,205
Share issue costs	**493,532**	523,919
Valuation allowance	**(16,636,982)**	(23,213,040)
Future tax asset	**—**	—

15. INDEMNIFICATION OF OFFICERS AND DIRECTORS

Our corporate by-laws require that, except to the extent expressly prohibited by law, we will indemnify our officers and directors against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment reasonably incurred in respect of any civil, criminal or administrative action or proceeding as it relates to their services to the Company. The by-laws provide no limit to the amount of the indemnification. We have purchased directors' and officers' insurance coverage to cover claims made against the directors and officers during the applicable policy periods. The amounts and types of coverage have varied from period to period as dictated by market conditions. We believe that we have adequate insurance coverage; however, there is no guarantee that all indemnification payments will be covered under our existing insurance policies.

There is no pending litigation or proceeding involving any of our officers or directors as to which indemnification is being sought, nor are we aware of any threatened litigation that may result in claims for indemnification.

16. CAPITAL DISCLOSURES

Our objective when managing capital is to maintain adequate cash resources to support planned activities which include the clinical trial program, product manufacturing, administrative costs and intellectual property expansion and protection. We include shareholders' equity, cash and cash equivalents and short-term investments in the definition of capital. We do not have any debt other than trade accounts payable and we have potential contingent obligations relating to the completion of our research and development of REOLYSIN®.

In managing our capital, we estimate our future cash requirements by preparing a budget and a multiyear plan annually for review and approval by our Board of Directors (the "Board"). The budget establishes the approved activities for the upcoming year and estimates the costs associated with these activities. The multiyear plan estimates future activity along with the potential cash requirements and is based on our assessment of our current clinical trial progress along with the expected results from the coming year's activity. Budget to actual variances are prepared monthly and reviewed by management and are presented quarterly to the Board.

Historically, funding for our plan is primarily managed through the issuance of additional common shares and common share purchase warrants that upon exercise are converted to common shares. Management regularly monitors the capital markets attempting to balance the timing of issuing additional equity with our progress through our clinical trial program, general market conditions, and the availability of capital. There are no assurances that funds will be made available to us when required.

On June 16, 2008, we filed a short form base shelf prospectus (the "Base Shelf") that qualifies for distribution up to $150,000,000 of common shares, subscription receipts, warrants, debt securities and/or units (the "Securities"). Under our Base Shelf, we may sell Securities to or through underwriters, dealers, placement agents or other intermediaries and also may sell Securities directly to purchasers or through agents, subject to obtaining any applicable exemption from registration requirements. The distribution of Securities may be effected from time to time in one or more transactions at a fixed price or prices, which may be changed, at market prices prevailing at the time of sale, or at prices related to such prevailing market prices to be negotiated with purchasers and as set forth in an accompanying Prospectus Supplement.

Establishing the Base Shelf provides us with additional flexibility when managing our cash resources as, under certain circumstances, it shortens the time period required to close a financing and is expected to increase the number of potential investors that may be prepared to invest in our company. Funds received from a Prospectus Supplement will be used in line with our Board approved budget and multiyear plan. This Base Shelf expires on July 16, 2010 and on December 5, 2008 we registered 2,650,000 units under this shelf.

We are not subject to externally imposed capital requirements and there have been no changes in how we define or manage our capital in 2008.

17. SHORT-TERM INVESTMENTS

Short-term investments, consisting of Government of Canada treasury bills, are liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

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The objectives for holding short-term investments are to invest our excess cash resources in investment vehicles that provide a better rate of return compared to our interest bearing bank account with limited risk to the principal invested. We intend to match the maturities of these short-term investments with the cash requirements of the Company's activities and treat these as held-to-maturity short-term investments. We do not hold any asset backed commercial paper.

	Face Value	**Original Cost**	**Accrued Interest**	**Carrying Value**	**Fair Value**	**Effective Interest Rate**
	$	$	$	$	$	*%*
December 31, 2008						
Short-term investments	**5,850,305**	**5,828,500**	**18,134**	**5,846,634**	**5,847,527**	**1.81**
December 31, 2007						
Short-term investments	18,532,862	18,230,340	268,393	18,498,733	18,499,173	4.26

Fair value is determined by using published market prices provided by our investment advisor.

18. FINANCIAL INSTRUMENTS

Our financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable, and accounts payable. As at December 31, 2008, there are no significant differences between the carrying values of these amounts and their estimated market values.

Credit risk

Credit risk is the risk of financial loss if a counter-party to a financial instrument fails to meet its contractual obligations. We are exposed to credit risk on our cash and cash equivalents and short-term investments in the event of non-performance by counterparties, but we do not anticipate such non-performance. Our maximum exposure to credit risk at the end of the period is the carrying value of our cash and cash equivalents and short-term investments.

We mitigate our exposure to credit risk by maintaining our primary operating and investment bank accounts with Schedule I banks in Canada. For our foreign domiciled bank accounts, we use referrals or recommendations from our Canadian banks to open foreign bank accounts and these accounts are used solely for the purpose of settling accounts payable or payroll.

We also mitigate our exposure to credit risk by restricting our portfolio to investment grade securities with short-term maturities and by monitoring the credit risk and credit standing of counterparties. Currently, 100% of our short-term investments are in Government of Canada treasury bills.

Interest rate risk

Interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. We are exposed to interest rate risk through our cash and cash equivalents and our portfolio of short-term investments. We mitigate this risk through our investment policy that only allows

investment of excess cash resources in investment grade vehicles while matching maturities with our operational requirements.

Fluctuations in market rates of interest do not have a significant impact on our results of operations due to the short term to maturity of the investments held.

Currency risk

Currency risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. We are exposed to currency risk from the purchase of goods and services primarily in the U.S. and the U.K. The impact of a $0.01 increase in the value of the U.S. dollar against the Canadian dollar would have increased our net loss in 2008 by approximately $57,137. The impact of a $0.01 increase in the value of the British pound against the Canadian dollar would have increased our net loss in 2008 by approximately $13,964.

We mitigate our foreign exchange risk through the purchase of foreign currencies in sufficient amounts to settle our foreign accounts payable.

Balances in foreign currencies at December 31, 2008 are as follows:

	U.S. dollards **$**	**British pounds** **£**
Cash and cash equivalents	343,196	34,135
Accounts payable	(571,048)	(278,345)
	(227,852)	(244,210)

Liquidity risk

Liquidity risk is the risk that we will encounter difficulty in meeting obligations associated with financial liabilities. We manage liquidity risk through the management of our capital structure as outlined in Note 16.

Accounts payable are all due within the current operating period.

19. ECONOMIC DEPENDENCE

In 2008, we transferred our technology to a second toll manufacturer in the U.S. As well, we produced additional clinical grade REOLYSIN® during the year building up a supply of product for use in our clinical trial program. We now have sufficient product to complete our current ongoing clinical trial program, however, we will require additional production to supply a pivotal trial program. As a result, any significant disruption of the services provided by either of our toll manufacturers has the potential to delay the progress of our clinical trial program.

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20. ADDITIONAL CASH FLOW DISCLOSURE
Net Change In Non-Cash Working Capital

	2008 $	2007 $	2006 $	Cumulative from inception on April 2, 1998 to December 31, 2008 $
Change in:				
Accounts receivable	(6,237)	3,918	(36,613)	(86,322)
Prepaid expenses	80,632	378,240	(98,172)	(179,668)
Accounts payable and accrued liabilities	1,712,884	204,806	923,940	4,534,111
Change in non-cash working capital	1,787,279	586,964	789,155	4,268,121
Net change associated with investing activities	—	—	23,467	—
Net change associated with operating activities	1,787,279	586,964	812,622	4,268,121

Other Non-Cash Items

	2008 $	2007 $	2006 $	Cumulative from inception on April 2, 1998 to December 31, 2008 $
Foreign exchange loss				
Donation of medical equipment	—	—	—	66,069
Loss on sale of Transition Therapeutics In	—	—	—	2,156,685
Gain on sale of BCY LifeSciences Inc.	—	—	—	(299,403)
Cancellation of contingent payment obligat settled in common shares [note 9]	—	—	—	150,000
Future income tax recovery	—	—	—	(1,115,000)

	2008	2007	2006	Cumulative from inception on April 2, 1998 to December 31, 2008
	$	$	$	$
	—	—	—	1,383,537

21. BCY LIFESCIENCES INC.

On May 7, 2002, the shareholders of SYNSORB and the Company approved an arrangement whereby the Company would release from escrow 4,000,000 common shares held by SYNSORB. As consideration, SYNSORB provided the Company with 1,500,000 common shares of BCY Life Sciences Inc. (“BCY”) along with the rights to receive an additional 400,000 common shares of BCY upon the attainment of certain milestones by BCY at no cash cost to the Company. The Company received 200,000 of these 400,000 common shares on November 27, 2002. These 1,700,000 common shares in BCY were recorded as an investment at $170,000 based on the quoted market price of the BCY common shares at that time

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with an offsetting credit recorded to contributed surplus. On April 23, 2002, the Company acquired 694,445 common shares of BCY, a public company, for $0.18 per share, and warrants exercisable until April 23, 2004 to purchase up to 694,445 common shares in BCY at an exercise price of $0.27 per share for total consideration of $127,123 (including costs of $2,123). After these transactions, the Company held a total of 2,394,445 BCY shares which were all subsequently sold for net cash proceeds of $591,725, recording a gain on sale of investment of $299,403.

22. RECONCILIATION OF CANADIAN GAAP TO U.S. GAAP

Our consolidated financial statements are prepared in accordance with Canadian GAAP which, in most respects, conforms to U.S. GAAP. Significant differences between Canadian and U.S. GAAP are as follows:

		Years Ended December 31,			Cumulative from inception on April 2, 1998 to December 31, 2008
	Notes	2008 $	2007 $	2007 $	$
Net loss - Canadian GAAP	(2)	17,550,204	15,950,426	14,628,291	102,556,751
Amortization of intellectual property	(1)	(361,500)	(361,500)	(361,500)	(3,434,250)
Future income tax recovery	(1)	—	—	—	1,115,000
Net loss and comprehensive loss - U.S. GAAP		17,188,704	15,588,926	14,266,791	100,237,501
Basic and diluted loss per common share - U.S. GAAP		(0.42)	(0.39)	(0.39)	—

There are no differences between Canadian GAAP and U.S. GAAP in amounts reported as cash provided by (used in) operating, financing and investing activities.

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Balance sheet items in accordance with U.S. GAAP are as follows:

		December 31, 2008		December 31, 2007	
	Notes	Canadian GAAP	U.S. GAAP	Canadian GAAP	U.S. GAAP
Intellectual property	(1)	180,750	—	542,250	—
Future income taxes	(1)	—	—	—	—
Contributed surplus	(1)	12,197,801	9,697,801	10,376,962	7,876,962
Deficit	(1)	102,556,751	100,237,501	85,006,547	83,048,797

1. "Push-Down" Accounting and In Process Research and Development

Intellectual property of $2,500,000 recorded as a consequence of SYNSORB's acquisition of the Company's shares comprises intangible assets related to research and development activities. Under U.S. GAAP, this would not be capitalized on acquisition.

As a result of removing the $2,500,000 from intellectual property in 1999 for U.S. GAAP purposes, the amortization of the intellectual property, the future income tax recovery, future income tax liability and contributed surplus amounts recorded for Canadian GAAP purposes have been reversed.

2. Presentation of Stock Based Compensation Expense

Under U.S. GAAP, stock based compensation expense is to be presented within the appropriate category of expenses on the statements of loss. As a result, stock based compensation on the statement of loss would be reduced by $64,039 in 2008 (2007 – $539,156; 2006 – $403,550) and research and development and operating expenses would increase by $64,039 and $nil, respectively (2007 – $375,156 and $164,000, respectively; 2006 – $131,890 and $271,660, respectively). Cumulative from inception stock based compensation would be reduced by $4,768,844 and cumulative from inception research and development and operating expenses would increase by $2,735,124 and $2,033,720, respectively. There is no impact on the Company's net loss.

Additional Stock Based Payment Disclosure

As at December 31, 2008, the aggregate intrinsic value of the stock options outstanding and the stock options exercisable were $166,092 and $165,872, respectively. The total intrinsic value of the options exercised in 2008 was $nil (2007 –$90,000; 2006 –$618,960).

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A summary of our non-vested options as at December 31, 2008 and changes during the year ended December 31, 2008 is as follows:

	2008		2007	
	Stock Options	Weighted Average Share Price $	Stock Options	Weighted Average Share Price $
Non-vested, beginning of the year	**208,550**	**1.19**	**182,500**	**1.38**
Granted during the year	**5,500**	**0.64**	**76,050**	**0.94**
Vested during the year	**(75,350)**	**1.24**	**(50,000)**	**1.51**
Forfeited during the year	**—**	**—**	**—**	**—**
Non-vested, end of the year	**138,700**	**1.14**	**208,550**	**1.19**

As at December 31, 2008, there was $33,313 (2007 - $93,929) of total unrecognized compensation costs related to non-vested stock options granted under our stock option plan. This cost is expected to be recognized over a weighted average period of 0.96 years. The total fair value of shares vested during the years ended December 31, 2008, 2007, and 2006 was $93,572, $75,500 and $129,276, respectively.

The Company issues shares from treasury to satisfy any exercise of stock options.

Accounting for Uncertainty in Income Taxes

The tax years 2002 – 2007 remain open for audit examination by the respective Canadian taxing jurisdictions.

New Accounting Principles

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements,” (“SFAS 157”), which established a framework for measuring fair value and expands disclosures about fair value measurements. The FASB partially deferred the effective date of SFAS

157 for non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis to fiscal years beginning after November 15, 2008. The effective date for financial assets and liabilities that are recognized on a recurring basis was January 1, 2008. We determined that our adoption of SFAS 157 on January 1, 2008 for financial assets and liabilities did not have a material impact on our consolidated financial statements. We currently do not expect that the adoption of SFAS 157 related to non-financial assets will have a material impact on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities, (“SFAS 159”), which provides companies with an option to report selected financial assets and liabilities at fair value. SFAS 159 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and highlights the effect of a company’s choice to use fair value on its earnings. It

also requires a company to display the fair value of those assets and liabilities for which it has chosen to use fair value on the face of the balance sheet. SFAS 159 was effective for the Company beginning January 1, 2008 and did not have an impact on its consolidated financial statements as the Company did not choose to use the fair value option.

In June 2007, the FASB ratified EITF Issue No. 07-3, "Accounting for Non-Refundable Advance Payments for Goods or Services to be Used in Future Research and Development Activities," ("EITF 07-3"), which provides that non-refundable advance payments for future research and development activities should be deferred and capitalized until the related goods are delivered or the related services are performed. EITF 07-3 was effective on a prospective basis beginning January 1, 2008 and did not have a material impact on our consolidated financial statements.

23. SUBSEQUENT EVENT

On March 2, 2009 we entered into an agreement to acquire an inactive private company ("PrivateCo"), pursuant to a plan of arrangement under the Business Corporations Act (Alberta) (the "Arrangement"). PrivateCo does not actively carry on any business operations, has accumulated tax losses from its previous development business, and is expected to have approximately $2.3 million in net cash available at the closing of the transaction.

Under the terms of the Arrangement, we will issue common shares of Oncolytics at an exchange ratio calculated based upon an agreed premium to PrivateCo's net cash per share at closing and using an ascribed price per common share of Oncolytics of $1.69 (which is based on the 20 day volume weighted average trading price of Oncolytics shares on the Toronto Stock Exchange up to and including March 2, 2009).

Completion of this transaction is subject to a number of conditions including receipt of all necessary shareholder, court and regulatory approvals. The acquisition is expected to close in April 2009.