U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 40-F

[ ] REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

OR

[X] ANNUAL REPORT PURSUANT TO SECTION 13(a) OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2005 **Commission File Number: 000-31062**

ONCOLYTICS BIOTECH INC.

(Exact name of Registrant as specified in its charter)

Not Applicable	**Province of Alberta, Canada**	**Not Applicable**
(Translation of Registrant's name into English (if applicable)	(Province of other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number (if applicable))

2834
(Primary Standard Industrial Classification Code Number (if applicable))

Suite #210, 1167 Kensington Crescent N.W., Calgary, Alberta, Canada, T2N 1X7
(403) 670-7377
(Address and telephone number of Registrant's principal executive offices)

DL Services, Inc., 1420 Fifth Avenue, Suite 3400, Seattle, Washington 98101
(206) 903-8800
(Name, address (including zip code) and telephone number (including area code) of agent for service in the United States)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
Common Shares	**NASDAQ SmallCap**

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None
(Title of Class)

For annual reports, indicated by check mark the information filed with this Form:

[X] Annual information form [X] Audited annual financial statements

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

As at December 31, 2005, 36,236,748 Common Shares without par value were issued and outstanding.

Indicate by check mark whether the Registrant by filing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934 (the "Exchange Act"). If "Yes" is marked, indicate the filing number assigned to the Registrant in connection with such Rule.

|_| Yes: 82-____ |X| No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing

requirements for the past 90 days.

|X| Yes |_| No

Explanatory Note: Oncolytics Biotech Inc. is a Canadian issuer eligible to file our annual report pursuant to Section 13 of the Securities Exchange Act of 1934 (the "1934 Act") on Form 40-F. We are a "foreign private issuer" as defined in Rule 3b-4 under the 1934 Act and in Rule 405 under the Securities Act of 1933. Our equity securities are accordingly exempt from Sections 14(a), 14(b), 14(c), 14(f) and 16 of the 1934 Act pursuant to Rule 3a12-3.

NOTE REGARDING FORWARD LOOKING STATEMENTS

Certain statements in this document and the documents attached as exhibits hereto constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Oncolytics Biotech Inc., or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements are statements that are not historical facts, and include but are not limited to, estimates and their underlying assumptions; statements regarding plans, objectives and expectations with respect to the efficacy of our technologies; the timing and results of clinical studies related to our technologies; future operations, products and services; the impact of regulatory initiatives on our operations; the size of and opportunities related to the markets for our technologies; general industry and macroeconomic growth rates; expectations related to possible joint and/or strategic ventures and statements regarding future performance. Forward-looking statements generally, but not always, are identified by the words "expects," "anticipates," "believes," "intends," "estimates," "projects", "potential", "possible" and similar expressions, or that events or conditions "will," "may," "could" or "should" occur.

The forward-looking statements in this Annual Report are subject to various risks and uncertainties, most of which are difficult to predict and generally beyond our control, including without limitation:

- uncertainty as to our ability to achieve the goals and satisfy assumptions of management;
- the uncertainties related to the outcome of clinical studies and the long process related to such studies;
- the need for regulatory approvals to market REOLYSIN(R)and other products;
- our need for additional financing which may not be available on acceptable terms or at all;
- uncertainty as to whether we will be able to complete any licensing, partnering or marketing arrangements for our technologies;
- uncertainty as to the market acceptance of our products and our ability to generate sufficient revenues to make our products and technologies commercially viable;
- the intense competition in the biotechnology industry and risks related to changing technology that may render our technology obsolete; and
- other factors identified under the heading "Risk Factors" in our Renewal Annual Information Form, and those that are discussed or identified in our other public filings with the SEC.

Our actual results, performance or achievement could differ significantly from those expressed in, or implied by, our forward-looking statements. Accordingly, we cannot assure that any of the events anticipated by our forward-looking statements will occur, or if they do, what impact they will have on our results of operations and financial condition.

Forward-looking statements are based on our beliefs, opinions and expectations at the time they are made, and we do not assume any obligation to update our forward-looking statements if those beliefs, opinions, or expectations, or other circumstances, should change.

For all of the reasons set forth above, investors should not place undue reliance on forward-looking statements.

CURRENCY

Unless otherwise indicated, all dollar amounts in this report are Canadian dollars. The exchange rate of Canadian dollars into United States dollars, on December 30, 2005, based upon the noon buying rate in New York City for cable transfers payable in Canadian dollars as certified for customs purposes by the Federal Reserve Bank of New York, was U.S.$1.00 = CDN $1.1656.

AUDITED ANNUAL FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS

Audited Annual Financial Statements

The audited financial statements, including the report of the auditors with respect thereto are included herein by reference. For a reconciliation of important differences between Canadian and United States generally accepted accounting principles, see Note 20 — Reconciliation of Canadian GAAP to US GAAP of the Notes to Audited Financial Statements included herein by reference.

Management's Discussion and Analysis

Our management discussion and analysis of financial conditions and results of operations ("MD&A") is included herein by reference.

DISCLOSURE CONTROLS AND PROCEDURES

As of the end of the period covered by this report, we carried out an evaluation, under the supervision of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 of the United States Securities Exchange Act of 1934 ("Exchange Act"). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the period covered by this Annual Report on Form 40-F, no changes occurred in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Our management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or internal controls and procedures will prevent all error and all fraud. A control system can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Oncolytics Biotech Inc. have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls

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also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving our stated goals under all potential future conditions. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

CODE OF ETHICS FOR CHIEF EXECUTIVE OFFICER, CHIEF FINANCIAL OFFICER AND CONTROLLER

We have adopted a Code of Ethics for Chief Executive Officer, Chief Financial Officer and Controller. This code applies to our President and Chief Executive Officer, Chief Financial Officer and Controller. A copy of the Code of Ethics for Chief Executive Officer, Chief Financial Officer and Controller is attached to this annual report as Exhibit F, and is available in print to any shareholder who requests it by writing to Oncolytics Biotech Inc. at Suite #210, 1167 Kensington Crescent N.W., Calgary, Alberta, Canada, T2N 1X7, Attention: Doug Ball. All amendments to the code, and all waivers of the code with respect to any of the officers covered by it, will be disclosed in our annual report on Form 40-F or in current reports on Form 6-K and provided in print to any shareholder upon written request.

We have a separate Code of Ethics applicable to all of our employees, officers and directors, a copy of which is available in print to any shareholder who requests it by writing to Oncolytics Biotech Inc. at Suite #210, 1167 Kensington Crescent N.W., Calgary, Alberta, Canada, T2N 1X7, Attention: Doug Ball. All amendments to the Code of Ethics applicable to our employees, officers and directors, and all waivers of the code with respect to any of the officers covered by it, will be disclosed in our annual report on Form 40-F or in current reports on Form 6-K and provided in print to any shareholder upon written request.

AUDIT COMMITTEE

Our Board of Directors has a separately-designated standing Audit Committee for the purpose of overseeing our accounting and financial reporting processes and audits of our annual financial statements. We have adopted a formal, written Audit Committee Charter and our Audit Committee reviews and reassesses the adequacy of the Charter on an annual basis. As at the review of the 2005 Annual Report, and as at the date of this Report, the following individuals comprise the entire membership of our Audit Committee, which have been established in accordance with Section 3(a)(58)(A) of the Exchange Act:

Fred Stewart
Robert Schultz
Jim Dinning

Independence

We have adopted the criteria for director independence and unrelatedness prescribed by the Sarbanes-Oxley Act of 2002, Section 10A(m)(3) of the Exchange Act and Rule 10A-3(b)(1) promulgated thereunder, for members of public company audit committees.

Audit Committee Financial Expert

Mr. Robert Schultz has been determined by us to meet the audit committee financial expert criteria prescribed by the Securities and Exchange Commission and has been designated as an audit committee financial expert for the Audit Committee. Each of the previously mentioned directors have also been determined by us to be independent within the criteria referred to above under the subheading "Independence".

PRINCIPAL ACCOUNTING FEES AND SERVICES – INDEPENDENT AUDITORS

The table setting forth our fees paid to our independent auditor, Ernst & Young LLP for the years ended December 31, 2005 and December 31, 2004 are set forth under the heading *"Additional Information – External Auditor Service Fees"* of our 2005 Annual Information Form included herein by reference.

PRE-APPROVAL OF AUDIT AND NON-AUDIT SERVICES PROVIDED BY INDEPENDENT AUDITORS

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.

OFF-BALANCE SHEET ARRANGEMENTS

As disclosed in our MD&A included herein by reference, under the heading *"Liquidity and Capital Resources – Off-Balance Sheet Arrangements"*, we have not entered into any off-balance sheet arrangements.

TABLE OF CONTRACTUAL COMMITMENTS

As disclosed in our MD&A included herein by reference, under the heading *"Liquidity and Capital Resources – Capital Expenditures and Commitments",* we have set forth our contractual commitments.

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 Province of Alberta and our common shares are listed for trading on The Toronto Stock Exchange. We comply with the laws of 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.

UNDERTAKING AND CONSENT TO SERVICE OF PROCESS

Undertaking

We undertake to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities registered pursuant to Form 40-F; the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

Consent to Service of Process

We previously filed an Amended Appointment of Agent for Service of Process and Undertaking on Form F-X signed by Oncolytics Biotech Inc. and our agent for service of process on November 10, 2003 with respect to the class of securities in relation to which the obligation to file the Form 40-F arises, which Form F-X is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of the Exchange Act, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has

duly caused this annual report to be signed on our behalf by the undersigned, thereto duly authorized.

Registrant

Oncolytics Biotech Inc.

By /s/Doug Ball
Chief Financial Officer

Date: March 3, 2006

DOCUMENTS FILED AS PART OF THIS REPORT

1. Renewal Annual Information Form of the Registrant for the year ended December 31, 2005

2. The following audited financial statements of the Registrant, are exhibits to and form a part of this Annual Report:

   Auditors'Report on Financial Statements
   Balance Sheets as of December 31, 2005 and 2004;
   Statements of Loss and Deficit for the years ended December 31, 2005, 2004, 2003 and cumulative from inception on April 2, 1998 to December 31, 2005;
   Statements of Cash Flows for the years ended December 31, 2005, 2004, 2003 and cumulative from inception on April 2, 1998 to December 31, 2005;
   Notes to Financial Statements (which include reconciliation with United States generally accepted accounting principles).

3. Management Discussion and Analysis of Financial Conditions and Results of Operations

EXHIBITS

A. Certifications by our Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

B. Certifications by our Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

C. Certificate of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

D. Certificate of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

E. Consent of Ernst & Young LLP, Independent Accountants

F. Code of Ethics for Chief Executive Officer, Chief Financial Officer and Controller

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RENEWAL ANNUAL INFORMATION FORM

for the Year Ended December 31, 2005

March 2, 2006

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This Annual Information Form contains forward-looking statements, including statements that may contain words such as "anticipate," "estimate," expect," "project," "intend," "plan," "believe" and similar expressions and statements relating to matters that are not historical facts. Forward-looking statements, including our belief as to the potential of REOLYSIN® as a cancer therapeutic and our expectations as to the success of our research and development and manufacturing programs in 2006 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. Such risks and uncertainties include, among others, the need for and availability of funds and resources to pursue research and development projects, the efficacy of REOLYSIN® as a cancer treatment, the success and timely completion of clinical studies and trials, our ability to successfully commercialize REOLYSIN®, uncertainties related to the research, development and manufacturing of pharmaceuticals, uncertainties related to competition, changes in technology, the regulatory process and general changes to the economic environment. Investors should consult our quarterly and annual filings with the Canadian and U.S. securities commissions for additional information on risks and uncertainties relating to the forward-looking statements. Forward looking statements are based on assumptions, projections, estimates and expectations of management at the time such forward looking statements are made, and such assumptions, projections, estimates and/or expectations could change or prove to be incorrect or inaccurate. Investors are cautioned against placing undue reliance on forward-looking statements. We do not undertake to update these forward-looking statements.

CORPORATE STRUCTURE

Oncolytics Biotech Inc. was incorporated pursuant to the provisions of the ABCA on April 2, 1998 as 779738 Alberta Ltd. On April 8, 1998, we amended our articles and changed our name to Oncolytics Biotech Inc. On July 29, 1999, we further amended our articles by removing the private company restrictions and subdividing our issued and outstanding 2,222,222 common shares to create 6,750,000 common shares. Our head office and principal place of business is located at 210, 1167 Kensington Crescent N.W., Calgary, Alberta T2N 1X7. Our registered office is located at 4500 Bankers Hall East, 855 – 2nd Street S.W., Calgary, Alberta T2P 4K7.

GENERAL DEVELOPMENT OF THE BUSINESS

General

We focus on the discovery and development of oncolytic viruses for the treatment of cancers that have not been successfully treated with conventional therapeutics. Recent scientific advances in oncology, virology, and molecular biology have created opportunities for new approaches to the treatment of cancer. The product we are presently developing may represent a novel treatment for Ras mediated cancers which can be used as an alternative to existing cytotoxic or cytostatic therapies or as an adjuvant therapy to conventional chemotherapy, radiation therapy, or surgical resections. It could also potentially be used to treat certain cellular proliferative disorders for which no current therapy exists.

Our technologies are based primarily on discoveries in the Department of Microbiology and Infectious Diseases at the University of Calgary in the 1990's. Oncolytics Biotech Inc. was formed in 1998 to explore the natural oncolytic capability of the reovirus, a virus that preferentially replicates in cells with an activated Ras pathway.

The lead product being developed by us may represent a novel treatment for certain tumour types and some cellular proliferative disorders. Our lead product is a virus that is able to replicate specifically in, and hence kill, certain tumour cells both in tissue culture as well as in a number of animal models without damaging normal cells. See *"Narrative Description of the Business – Our Business; Scientific Background"* .

We are also assessing the potential opportunities for product candidates resulting from issued patents received for Ras targeted adenovirus and herpes virus.

Clinical Trials

On November 14, 2005, we reported results in conjunction with a poster presentation at the AACR-NCI-EORTC conference in the U.S. by our principal investigator for our Phase I systemic delivery clinical trial in the U.K. We reported on 22 patients who made up seven of nine potential cohorts with each cohort receiving escalating dose levels of REOLSYIN®. Our principal investigator presented data on 22 patients and reported that REOLYSIN® is well tolerated when administered intravenously with minimal toxicity observed and that reovirus replication in tumours has been identified with evidence of tumor necrosis. The principal investigator also reported that there have been encouraging hints of activity in prostate and colorectal cancer.

On October 19, 2005, we announced that we had ended patient treatment in our Canadian Phase I clinical trial investigating the use of REOLYSIN® to treat patients with recurrent malignant glioma. A total of twelve patients were treated in the study at dosages of 10^7, 10^8, and 10^9 TCID50. A maximum tolerated dose was not reached over this dosage range and REOLYSIN® appears to have been well tolerated by the patients. Determination of the safety of REOLYSIN® was the primary purpose of this Canadian Phase I study. The study examined the use of a single, intratumoural injection of REOLYSIN®, delivered using imaging-guided surgery, in patients with malignant gliomas that had recurred despite other treatments, including surgery and radiation therapy. After treatment with REOLYSIN®, the Phase I patients are monitored and evaluated for safety for a period of six months.

On April 7, 2005, we announced that we received clearance from the US Food and Drug Administration (FDA) to begin a Phase I clinical trial to investigate the systemic delivery of REOLYSIN® as a treatment for patients with advanced or metastatic solid tumours. This clinical trial is an open-label, dose-escalation Phase I study in which a single dose of REOLYSIN® will be administered intravenously to patients diagnosed with selected advanced or metastatic solid tumours that are refractory (have not responded) to standard therapy or for which no curative standard therapy exists. The primary objective of the study is to determine the maximum tolerated dose ("MTD"), dose limiting toxicity ("DLT") and safety profile of REOLYSIN®. Secondary objectives include the evaluation of viral replication, immune response to the virus and any evidence of anti-tumour activity. The enrolment in this study, which commenced on September 28, 2005, is expected to be up to 36 evaluable patients and will depend in part upon the number of cohorts tested.

On February 28, 2005, we announced that we had received clearance from the US Food and Drug Administration (FDA) to begin a Phase I/II clinical trial to investigate the use of REOLYSIN® to treat patients with recurrent malignant gliomas. This clinical trial is an open-label dose escalation Phase I/II study in which a single dose of REOLYSIN® will be administered by infusion to patients with recurrent malignant gliomas that are refractory to standard therapy. The administration involves the stereotactically-guided placement of a needle into the tumour, through which REOLYSIN® will be administered or infused into the tumour mass and surrounding tissue using a pump. The primary objective of the study is to determine the MTD, DLT and safety profile of REOLYSIN®. Secondary objectives include the evaluation of viral replication, immune response to the virus and any evidence of antitumour activity. The enrolment in this study is expected to be up to 30 evaluable patients in the dose escalation phase with up to an additional 14 patients added at the MTD.

On February 18, 2005, we announced that we received a letter of approval from the U.K. regulatory authorities (Medicines and Healthcare products Regulatory Agency or MHRA) for our Clinical Trial Application (CTA) to begin a Phase I clinical trial to evaluate the feasibility, safety and anti-tumour effects of intratumoural administration of REOLYSIN® in combination with radiation in patients with advanced cancers. The trial is a Phase I open-label, dose-escalation study of REOLYSIN® combined with two different radiation dosages/schedules. The enrolment in this study is expected to be approximately thirty evaluable patients and will depend upon the number of dose levels tested. Up to an

additional fifteen patients will also be treated at the MTD. The primary objective of the study is to determine the MTD, DLT, and safety profile of REOLYSIN® when administered intratumourally to patients receiving radiation treatment. A secondary objective is to examine any evidence of anti-tumour activity. Patients who have been diagnosed with advanced or metastatic solid tumours that are refractory (have not responded) to standard therapy or for which no curative standard therapy exists will be eligible. Patient enrolment commenced on July 26, 2005.

On February 27, 2004, we announced that we received approval to commence a Phase I clinical trial to investigate the systemic delivery of REOLYSIN® as a treatment for patients with advanced or metastatic solid tumours from the Medicines and Healthcare products Regulatory Authority in the United Kingdom. The principal investigator for the study is Dr. J. de Bono of the Royal Marsden Hospital in London, England. This clinical trial is the first to examine the systemic delivery of REOLYSIN®, which is expected to result in delivery of the virus throughout the body to both the primary tumour and metastatic disease sites. The trial is an open-label, dose escalation Phase I study in which REOLYSIN® is administered intravenously to patients diagnosed with advanced or metastatic solid tumours that are refractory (have not responded) to standard therapy or for which no curative standard therapy exists. The primary objective of the study is to determine the maximum tolerated dose, dose limiting toxicity and safety profile of REOLYSIN®. Secondary objectives include the evaluation of viral replication, immune response to the virus and any evidence of antitumour activity. The enrolment in this study is expected to be up to 40 evaluable patients and will depend upon the number of dose levels tested.

On February 27, 2004, we announced the final update on our technical clinical study for T2 prostate cancer. On March 23, 2003, we previously reported results from an interim assessment of this clinical trial. These results were presented by Dr. Don Morris, from the Alberta Cancer Board, the principal investigator for the trial. Dr. Morris reported that there was evidence of viral activity in five of six patients and there were no safety concerns, from either a clinical or histopathological perspective, in all six patients reported upon. The data in four of the six patients, showed clear histopathological evidence of apoptotic tumour cell death (one measure of viral activity). In a fifth patient, the PSA level dropped by 53% and the prostate gland shrunk by 67% from the period of time prior to treatment to the time of surgical removal. There was no evidence of viral activity in the sixth patient. In all six patients, there was no histopathological evidence of any viral effect on healthy prostate tissue. This trial, which was approved by Health Canada on October 11, 2001, was primarily a technical study designed to allow us to measure overall tumour response and examine changes or effects inside the tumour and in surrounding normal tissue, as part of a human clinical trial.

On October 29, 2003, we announced the approval by the Drug Development Group of the Division of Cancer Treatment and Diagnosis, U.S. National Cancer Institute ("NCI") for multiple clinical trials to evaluate the efficacy of REOLYSIN® in a range of cancers. The NCI approved REOLYSIN® for collaborative development after an analysis of preclinical, GLP toxicology and available clinical data. Oncolytics and NCI plan to collaborate to select cancer indications and suitable development programs for a number of clinical trials. The NCI is an agency of the National Institutes of Health, one of eight agencies that comprise the Public Health Service in the U.S. Department of Health and Human Services. The NCI, established under the National Cancer Act of 1937, is the U.S. Federal Government's principal agency for cancer research and training.

Animal Studies

On February 14, 2003, we announced successful completion of a primate toxicology study testing the safety of intravenous infusion of REOLYSIN® over 28 days. At the maximum daily dose used in the study, each primate received daily from 10 to 100 times the expected maximum single human dose per unit of body weight. The product was well tolerated and no product-related serious adverse events were observed.

Manufacturing

We engage a toll manufacturer, Cobra Biomanufacturing Plc for the production of reovirus for human clinical trials and animal toxicology studies. The product will be produced in compliance with current regulatory requirements and the manufacturer will confirm biosafety testing. See *"Risk Factors – Manufacturing"*.

On February 6, 2003, we announced the successful completion of our program for the development of a commercial process for the manufacturing of REOLYSIN®, and indicated that we had filed selective patent applications with respect to the process.

Financings and Other Distributions

Since the initial public offering, we have completed 11 offerings for net cash proceeds of $68,930,889. In 2005, on December 29, 2005, we issued 3,200,000 units at $5.15 per unit (each unit consisting of one common share and one-half of one common share purchase warrant with each full share purchase warrant exercisable into one common share at an exercise price of $6.15 per share until December 29, 2008).

Shareholdings in Other Issuers

During 2005, we sold 120,000 (2004 – 697,945; 2003 – 1,496,500) common shares of BCY for net cash proceeds of $7,965 (2004 – $133,609; 2003 – $450,151) and reported a gain on sale of these shares of $765 (2004 – $34,185, 2003 – $264,453). As at December 31, 2005, our remaining ownership in BCY was 80,000 common shares which were still under escrow.

On June 6, 2003, we sold 6,890,000 common shares in the capital of Transition Therapeutics Inc., for net proceeds of $2,552,695. We acquired these shares on June 18, 2002 in exchange for the issuance of 1,913,889 of our common shares valued at $4,709,380. We recorded a loss on sale with respect to the sale of these shares of $2,156,685.

Publications and Presentations

On November 15, 2005, a poster entitled “Reovirus enhances radiation cytotoxicity *in vitro* and *in vivo*” was presented by Dr. Kevin J. Harrington of the Targeted Therapy Laboratory, The Institute of Cancer Research, Cancer Research UK Centre for Cell and Molecular Biology, UK.

On April 20, 2005, a poster by Errington et al. entitled “Potential role for reovirus in the treatment of melanoma: Targeted killing and immune stimulation” was presented at the 96th Annual Meeting of the American Association for Cancer Research in Anaheim, CA. USA. This research supports the use of reovirus as a targeted therapy for melanomas. The research also showed that activation of certain classes of immune cells by the reovirus may enable additional anti-tumour activity beyond that of tumour cell death caused directly by the reovirus.

On December 15, 2004, “Efficacy and Safety Evaluation of Human Reovirus Type 3 in Immunocompetent Animals” was published in Clinical Cancer Research Vol. 10. This publication concluded that the data showed the efficacy and safety of reovirus when it is used in the treatment of gliomas in immunocompetent hosts. As well, inoculation of reovirus into the brain of nonhuman primates did not produce significant toxicities.

On September 30, 2004, a poster was presented at the 16th EORTC-NCI-AACR 2004 Symposium on ‘Molecular Targets and Cancer Therapeutics’ in Geneva, Switzerland entitled “The oncolytic reovirus, Reolysin, augments the anticancer effects of cytotoxic agents in vitro against the ras-mutated human

colon cancer cell line HCT 116.” The researchers were able to show that REOLYSIN® enhances the cytotoxicity of chemotherapeutic agents including 5-FU, gemcitabine, doxorubicin and cisplatin.

On September 23, 2003, we announced that Dr. Ramon Alemany, one of our collaborators since July 30, 2003, and his colleagues at the Institut Catala d’Oncologia in Barcelona, Spain, had published a research paper in the September 1, 2003 issue of *Cancer Research*, entitled “Ras-dependent Oncolysis with an adenovirus VAI Mutant.” The researchers were able to show that VAI mutant adenoviruses selectively replicated in and killed pancreatic cancer cells with a Ras-activated pathway. We currently hold issued U.S. patent number 6,596,268 with claims covering the treatment of Ras-mediated tumours using adenoviruses modified in the VAI domain.

On March 19, 2003, we announced that Dr. Don Morris and his research group with the Alberta Cancer Board and the University of Calgary had published the results of their work with the reovirus for the removal of contaminating cancer cells from autologous (harvested from the patient themselves) blood stem cells in model systems. The results showed that reovirus can successfully purge cancer cells within autografts and were published in the March 13, 2003 issue of *Blood*.

Patents

In 2005, four Canadian patents and one additional European patent were issued. The new patents in 2005 continued to expand on previously issued patents in the area of using recombinant reovirus for the treatment of neoplasia (cancers), non-cancer cellular proliferative diseases, and various methods of production and processing of the reovirus. In addition, we have a number of other patents under application, both in the United States, and through filings under the Patent Cooperation Treaty. See “*Narrative Description of the Business – Patent and Patent Application Summary*”.

Recent Developments

On January 18, 2006, the U.S. NCI issued a solicitation for Letters of Intent with respect to the conduct of two human clinical trials using REOLSYIN®. The first is a Phase II study administering REOLYSIN® systemically in patients with melanoma. The dosage and dosing regimen to be used in the study will be determined based on data derived from our ongoing U.K. and U.S. Phase I systemic administration studies. The second solicitation is for proposals for a Phase I/II study of REOLYSIN® co-administered both systemically and intraperitoneally (“IP”) in patients with ovarian cancer. The purpose of the Phase I portion of the trial is to determine the Maximum Tolerated Dose of REOLYSIN® given by IP administration in combination with a constant systemic dose and dosing regimen.

On January 24, 2006, we announced that an oral presentation of the preliminary results of our Phase I combination REOLYSIN®/radiation clinical trial is scheduled to be made at the American Association of Cancer Researchers annual meeting held April 1 – 5 in Washington D.C. by our principal investigator Dr. Kevin Harrington.

Future Developments

We anticipate that many important activities related to our clinical trial program, our product manufacturing and our intellectual property development and protection will occur in 2006 and beyond. We presently intend to continue to focus our clinical trial program on the evaluation of the effectiveness of REOLYSIN® as a potential treatment for various cancer indications. This will include continuing our clinical trial program presently underway, expanding into other areas including utilizing our association with the NCI to broaden our clinical trial program. We also intend to expand human clinical trials to determine the safety and effectiveness of systemic delivery of REOLYSIN® as a cancer therapeutic.

Various forms of cancer are being assessed and we intend to evaluate and select one or more forms of cancer that appear to provide the best opportunity for timely approval.

We plan to continue our focus on establishing strategic relationships with potential partners who can provide expertise in marketing and distribution, as well as assistance with research and development.

Except for historical information, this review contains statements which by their nature are forward-looking and which involve known and unknown risks, delays, uncertainties and other factors not under our control. Any of these factors may cause our actual results, performance or achievement to be materially different from the results, performance or expectations implied by these forward-looking statements. These factors include, but are not limited to, results of current or pending clinical trials, actions by regulatory authorities such as the Food and Drug Administration in the United States, the Health Protection Branch in Canada, or MHRA in the UK as well as those factors detailed in our regulatory filings.

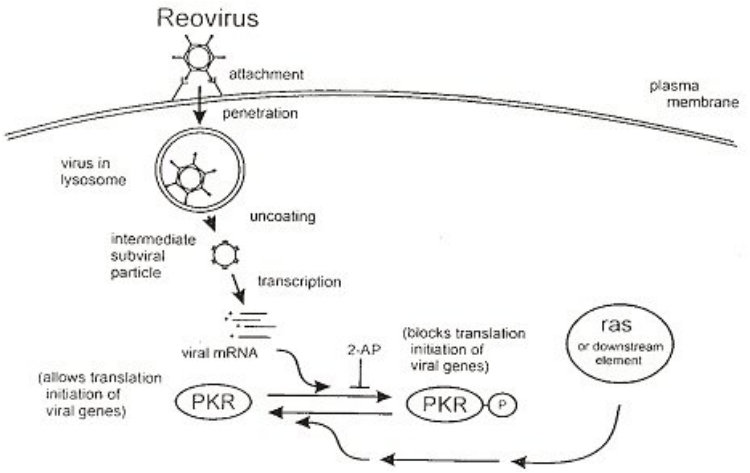
NARRATIVE DESCRIPTION OF THE BUSINESS

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 thirty per cent 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 is 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.

Repayable Grants

Pursuant to the Technology Commercialization Agreement with the Alberta Heritage Foundation, we received $150,000 to offset the REOLYSIN® development costs. Under the Technology Commercialization Agreement, we agreed to repay the amount of the grant from our gross sales. We agreed to repay the Alberta Heritage Foundation in annual installments in an amount equal to the lesser of: (a) 5% of gross sales; or (b) $15,000 per annum until the entire grant has been paid in full.

In accordance with the Clinical Trial Agreement with the ACB, we received funding and overhead support from the ACB to offset the REOLYSIN® clinical trial expenditures. Under the Clinical Trial Agreement, we agreed to repay the amount of the grant together with a royalty, to a combined maximum amount of $400,000 plus an overhead repayment of $100,000, upon sales of product. We agreed to repay the ACB in annual installments from the date of commencement of sales in an amount equal to the lesser of: (a) 5% of gross sales of REOLYSIN®; or (b) $100,000 per annum.

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 initiating toxicology and manufacturing programs and progress the product through a clinical setting to assess its 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.
- 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. See *"Risk Factors"*.

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. 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 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 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 process. 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.

Market and Competition

According to estimates for 2005 from the American Cancer Society, 1.37 million Americans are expected to be diagnosed with cancer in the year, and 57,000 Americans are forecast to die of cancer. In the United States cancer accounts for 22.8% of all deaths, second only to cardiovascular 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 $189.9 billion. Of this figure, $69.4 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 are aware of large pharmaceutical companies developing small molecule programs for the development of therapeutics to treat Ras mediated tumours. In addition, there are numerous companies, both big and small, that are working in the field of cancer therapeutics including some companies developing other oncolytic viruses. See *"Risk Factors".*

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. Our management and consultants have relevant experience with the partnering process.

Third Party Advisor, Collaborators and Scientific Advisory Board

We use various third party advisors, scientific collaborators and our scientific advisory board to assist us with the advancement of REOLYSIN®. We typically report on the activity of these groups once their work is completed.

Scientific Advisory Board

We formed a Scientific Advisory Board in 2003 to provide us with additional scientific and clinical guidance on the development of REOLYSIN®. The advisory board is comprised of Ramon Alemany, Ph.D., Richard Gorlick, M.D., Alan Tuchman, M.D., and Frank Tufaro, Ph.D.

Ramon Alemany, Ph.D., is a recognized expert on the development of antitumoural agents based on the adenovirus. During an eight year period in the United States he held progressively more senior positions in gene therapy laboratories at the MD Anderson Cancer Center, Baxter Healthcare Corporation and the University of Alabama at Birmingham. In 2001, he was appointed Director of the Gene and Viral Therapy Group at the Institut Catala d'Oncologia in Barcelona. Dr. Alemany is currently collaborating with us to develop modified adenoviruses that are selective for Ras mediated cancers.

Richard Gorlick, M.D., is the Section Chief of Hematology/Oncology in the department of pediatrics at the Children's Hospital at Montefiore in New York. He is actively involved in the national pediatric cooperative group, the Children's Oncology Group, for which he serves as the Chairman of the subcommittee on Bone Tumour Biology. Dr. Gorlick is known for his research work on molecular pharmacology of antifolate resistance and developing new therapeutic approaches for osteosarcoma.

Alan Tuchman, M.D., works in private practice and is Clinical Professor of Neurology at New York Medical College. He is also the Principal of NeuroPhysics Corporation, a healthcare and neuroscience consulting firm. From 1997 to 2001 Dr. Tuchman was the Senior Vice President of Equity Research for Oscar Gruss & Son, where he conducted investment research and helped develop marketing strategies for healthcare companies. He also held senior neurology positions at New York Medical College and Lincoln Medical and Mental Health Center.

Frank Tufaro, Ph.D., has extensive experience with biotech firms and was one of the founders of NeuroVir Inc., a Vancouver-based biotech company, which is now merged with MediGene AG to develop Herpes Simplex virus-based oncolytic vectors for cancer therapy. Under Dr. Tufaro's direction, NeuroVir and then MediGene Inc. were able to initiate and complete the first Phase I/II U.S. clinical trials of two herpes-based oncolytic viruses for the treatment of malignant brain tumours, and the treatment of colorectal cancer metastatic to the liver. He currently serves on scientific advisory boards for several biotech companies.

Intellectual Property Policy

At the end of 2005, we have 13 patents issued in the United States (11 of the 13 related to the reovirus technology), four issued in Canadian and two issued in Europewith additional applications in process. All potentially valuable intellectual property is identified by the inventory, and classified by us in terms of its sensitivity. All sensitive documentation related to the intellectual property is protected and kept in secure areas. All employees execute agreements containing confidentiality clauses, which assign any new

intellectual property to us. We believe that we apply our intellectual property protection policy consistently.

Where appropriate, and consistent with management's objective, patents are pursued as soon as the concepts have been validated through appropriate laboratory work. To that end, patents will continue to be sought on components or concepts that we perceive to be essential.

We believe that one of the best intellectual property control policies is a strong human resources policy to ensure that technical leaders with access to proprietary intellectual property do not consider leaving us for other employment. We intend that all staff be compensated through competitive salaries and participation in our stock option program.

Patent and Patent Application Summary

Where a patent is filed in the United States there is an option to file a Patent Cooperation Treaty ("PCT") application. The PCT application process is a means for technology patented in one of the PCT signatory countries to receive protection in other PCT countries. The PCT includes over 100 countries. Within one year of filing a patent in the United States, the applicant files for PCT coverage in all PCT countries. Approximately 18 months after the PCT filing, the applicant must pay individual filing fees in designated PCT countries and at that time the applicant may wish to restrict coverage to a subset of countries which have potential for the technology. At the time of filing the PCT application the applicant designates which of the member countries are to be covered by the application. The PCT application allows the applicant to defer national filings in the various designated countries for a period of up to 30 months from the original PCT application filing date. After the PCT application deferral period, the applicant must file for separate national or regional patents in one or more designated countries, depending on which specific markets the applicant intends to target.

The following table sets forth our patent issuances:

Title	Ownership	Inventors	Status of Patent	
Patent Number U.S. 6,110,461 Reovirus for the Treatment of Neoplasia	Oncolytics Biotech Inc.	Dr. Patrick W.K. Lee Dr. James E. Strong Dr. Matthew C. Coffey	Filing date: Issued:	Aug. 13, 1997 Aug. 29, 2000
Patent Number U.S. 6,136,307 Reovirus for the Treatment of cellular proliferative disorders	Oncolytics Biotech Inc.	Dr. Patrick W.K. Lee Dr. James E. Strong Dr. Matthew C. Coffey	Filing date: Issued:	Feb. 24, 1999 Oct. 24, 2000
Patent Number U.S. 6,261,555 Reovirus for the treatment of Neoplasia	Oncolytics Biotech Inc.	Dr. Patrick W .K. Lee Dr. James Strong Dr. Matthew C. Coffey	Filing date: Issued:	Aug. 12, 1998 July 17, 2001
Patent Number U.S. 6,344,195 Reovirus for the treatment of Neoplasia	Oncolytics Biotech Inc.	Dr. Patrick W. K. Lee Dr. James Strong Dr. Matthew C. Coffey	Filing date: Issued:	May 12, 2000 Feb. 5, 2002
European Patent Number 1003534 Reovirus for the treatment of Neoplasia	Oncolytics Biotech Inc.	Dr. Patrick W. K. Lee Dr. James Strong Dr. Matthew Coffey	Filing date: Issued:	Aug 12, 1998 March 6, 2002

Title	Ownership	Inventors	Status of Patent	
Patent Number U.S. 6,455,038 Reovirus for the treatment of Cellular Proliferative Disorders	Oncolytics Biotech Inc.	Dr. Patrick L. Lee Dr. James E. Strong Dr. Matthew C. Coffey	Filing date: Issued:	June 15, 2000 Sept. 24, 2002

Patent Number U.S. 6,528,305 Method of Producing Infectious Reovirus	Oncolytics Biotech Inc.	Dr. Bradley G. Thompson Dr. Matthew C. Coffey	Filing date: Issued :	Aug. 2, 2001 March 4, 2003
Patent Number U.S. 6,565,831 Methods of Preventing Reovirus Recognition for the Treatment for Cellular Proliferative Disorders	Oncolytics Biotech Inc.	Dr. Matthew C. Coffey Dr. Bradley G. Thompson	Filing date: Issued:	Aug. 10, 2000 May 20, 2003
Patent Number U.S. 6,576,234 Reovirus for the Treatment of Neoplasia	Oncolytics Biotech Inc.	Dr. Patrick L. Lee Dr. James E. Strong Dr. Matthew C. Coffey	Filing date: Issued:	May 10, 2001 June 6, 2003
Patent Number U.S. 6,596,268 Viruses for the Treatment of Cellular Proliferative Disorders(1)	Oncolytics Biotech Inc.	Dr. Matthew C. Coffey Dr. Bradley G. Thompson	Filing date: Issued:	Nov. 9, 2000 July 22, 2003
Patent Number U.S. 6,649,157 Viruses for the Treatment of Cellular Proliferative Disorders(2)	Oncolytics Biotech Inc.	Dr. Matthew C. Coffey Dr. Bradley G. Thompson	Filing date: Issued:	Sept. 28, 2001 Nov 18, 2003
Patent Number U.S. 6,703,232 Methods of Producing Infectious Reovirus	Oncolytics Biotech Inc.	Dr. Matthew C. Coffey Dr. Bradley G. Thompson	Filing date: Issued:	January 8, 2003 March 9, 2004
Patent Number U.S. 6,808,916 Method of Extracting Virus from Cell Culture	Oncolytics Biotech Inc.	Dr. Matthew C. Coffey Dr. Bradley G. Thompson	Filing date: Issued:	March 14, 2002 Oct. 26, 2004
Patent Number U.S. 6,811,775 Reovirus for the Treatment of Cellular Proliferative Disorders	Oncolytics Biotech Inc.	Dr. Patrick L. Lee Dr. James E. Strong Matthew E. Coffee	Filing date: Issued:	August 15, 2002 Nov. 2, 2004
European Patent Number 1,309,672 Method of Producing Infectious Reovirus	Oncolytics Biotech Inc.	Dr. Matthew C. Coffey Dr. Bradley G. Thompson	Filing date: Issued:	July 20, 2001 July 18, 2005
Canadian Patent Number 2,374,388 The use of Ribozymes in the Detection of Adventitious Agents	Oncolytics Biotech Inc.	Dr. Matthew C. Coffey	Filing date: Issued:	March 2, 2002 July 12, 2005

Title	Ownership	Inventors	Status of Patent	
Canadian Patent Number 2,428,206 Methods for the Treatment of Cellular Proliferative Disorders	Oncolytics Biotech Inc.	Dr. Matthew C. Coffey	Filing date: Issued:	Oct 26, 2001 Sept. 27, 2005
Canadian Patent Number 2,283,280 Reovirus for the Treatment of Neoplasia	Oncolytics Biotech Inc.	Dr. Patrick L. Lee Dr. James E. Strong Dr. Matthew C. Coffey	Filing date: Issued:	Aug. 12, 1998 Oct. 18, 2005
Canadian Patent Number 2,437,962 Method of Extracting Virus From Cell Culture	Oncolytics Biotech Inc.	Dr. Matthew C. Coffey Dr. Bradley G. Thompson	Filing date: Issued:	Mar 11, 2002 Nov. 15, 2005

Notes:

(1) Claims cover the treatment of Ras mediated tumours using modified adenoviruses.
(2) Claims cover the treatment of Ras mediated tumours using modified herpes viruses.

Other patent applications have been filed by us, but have yet to be published or approved.

Acquisition of all of the Shares of Oncolytics Biotech Inc. by SYNSORB

In April 1999, Oncolytics Biotech Inc., the Vendors and SYNSORB entered into the Share Purchase Agreement whereby SYNSORB acquired all of our then outstanding common shares for a share and cash exchange valued at $2,500,000 paid primarily in common shares of SYNSORB, four milestone payments payable to the Vendors valued, in the aggregate, at up to $4,000,000 and a royalty commitment. Pursuant to an assignment dated July 29, 1999, the obligation to make the milestone and certain royalty payments was assigned from SYNSORB to us. We thereby agreed to indemnify and save harmless SYNSORB from all actions, suits, demands, claims, costs, losses, expenses, charges and damages brought against SYNSORB in relation to the payment or non-payment of such obligations; however such assignment did not affect or release SYNSORB from its liabilities and responsibilities under the terms of the Share Purchase Agreement. As at the date hereof, we have

made three milestone payments totaling $3,000,000. The final milestone payment is $1.0 million payable within 90 days of the first receipt, in any country, from the Appropriate Regulatory Authority, for marketing approval to sell REOLYSIN® to the public or the approval of a new drug application for REOLYSIN®. In addition to the milestone payments, royalty payments payable to the Vendors will become due and payable in accordance with the Share Purchase Agreement upon realization of sales of REOLYSIN®.

In 2004, we reached an agreement that cancelled a portion of our future contingent obligation for consideration of $400,000 consisting of $250,000 cash and 21,459 common shares valued at $150,000. As a result, our future contingent obligations were reduced to 11.75% (formerly 14.25%) of royalty payments or other payments received as a result of entering into partnerships or other arrangements for the development of the reovirus technology. Alternatively, if we develop 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 equal a royalty payment of 2.35% (formerly 2.85%) of net sales received by us for such products.

Employees

As of December 31, 2005, we had 10 employees. The majority of our activities are conducted under contract with third party service providers.

Research and Development Expenditures

For the period ended December 31, 2005, we incurred research and development expenditures of $9,308,977 representing approximately 68.6% of our total expenses for the year. See *"Management's Discussion and Analysis – Results of Operations – Research and Development Expenses"*.

Dividend Policy

To date, we have not paid any dividends on our outstanding common shares. The future payment of dividends will be dependent upon our financial requirements to fund future growth, our financial condition and other factors which our Board of Directors may consider appropriate in the circumstances. It is unlikely that dividends will be paid in the foreseeable future.

MARKET FOR SECURITIES

Market for Common Shares

Our outstanding common shares are listed and posted for trading on the Toronto Stock Exchange under the trading symbol "ONC" and on the Nasdaq Capital Market under the trading symbol "ONCY". The following table sets forth the market price ranges and the aggregate volume of trading of the common shares on the Toronto Stock Exchange and Nasdaq Small Cap Market for the periods indicated:

	Toronto Stock Exchange				Nasdaq Capital Market			
Period	High ($)	Low ($)	Close ($)	Volume	High ($)	Low ($)	Close ($)	Volume
2005								
January	5.75	4.90	5.12	1,023,426	4.65	3.93	4.12	1,239,735
February	6.25	4.55	5.88	1,512,067	5.15	3.59	4.83	2,654,620
March	6.25	4.81	4.85	780,920	5.04	3.97	4.02	1,373,790
April	5.39	4.21	4.30	834,058	4.50	3.35	3.46	1,390,284
May	5.00	4.10	4.37	530,216	4.14	3.26	3.45	1,223,691
June	4.46	4.08	4.13	483,765	3.57	3.25	3.42	740,388
July	4.30	3.59	3.93	591,889	3.48	2.93	3.16	1,008,100
August	3.92	2.89	2.98	606,392	3.26	2.43	2.51	1,066,692
September	5.24	2.90	4.48	1,261,627	4.49	2.46	3.85	2,700,390
October	5.89	3.89	4.93	1,266,094	5.02	3.32	4.23	2,617,700
November	6.85	4.32	4.85	2,011,836	5.76	3.77	4.17	3,570,072
December	5.89	4.75	5.24	1,581,981	5.07	4.06	4.66	1,750,380

Description of Common Shares

The holders of our common shares are entitled to one vote per share at meetings of shareholders, to receive such dividends as declared by us and to receive our remaining property and assets upon dissolution or wind up. Our common shares are not subject to any future call or

assessment and there are no pre-emptive, conversion or redemption rights attached to such shares. As at December 31, 2005, we

have outstanding stock options and common share purchase warrants as set forth in Note 11 and 12 of our audited financial statements.

DIRECTORS AND OFFICERS

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.

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 Corporation Since
Bradley G. Thompson Ph.D(2) *Calgary, Alberta*	President, Chief Executive Officer and Executive 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. (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) and University Technologies International Inc. (UTI) at the University of Calgary since 2000 and is a director of Pheromone Corp and Medicure Inc. 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 Scientific Officer	Chief Scientific Officer of the Corporation since December 2004, Vice-President of Product Development from July 1999 to December 2004 and Chief Financial Officer from September 1999 to May 2000.	N/A

Name and Municipality of Residence	Position with the Corporation	Principal Occupation	Director of the Corporation Since
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 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.	N/A

Antoine A. Noujaim Ph.D. (2) *Edmonton, Alberta*	Director	Currently Honorary Chairman of ViRexx Medical Corp. Chairman and Chief Executive Officer of ViRexx Medical Corp from February 1, 2005 to November 2005. Formerly Chairman, CEO & President of ViRexx Research Inc. (a public biopharmaceutical company which changed its name to ViRexx Medical Corp.) since July, 2002. Formerly Chairman of the Board of AltaRex Corp. (a public biopharmaceutical company) from February 1998 to July, 2002. President and Chief Executive Officer of AltaRex Corp., from November 1995 to February 1998 and from May 2004 to the present. Prior thereto, Dr. Noujaim was the President of Biomira Research Inc., a division of Biomira Inc. (a public biopharmaceutical company) from 1994 to 1995 and Senior Vice-President of the Immunoconjugate Division of Biomira Inc. from 1989 to November 1995. Dr. Noujaim also served as a Director of Biomira Inc. from 1985 to 1995.	August 27, 1999
Robert B. Schultz, F.C.A. (1) *Toronto, Ontario*	Lead Director	Chairman and Director of Rockwater Capital Corporation formerly McCarvill Corporation (a financial services company) since June 2001. 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) *Bragg Creek, Alberta*	Director	President of Fred Stewart & Associates Inc. (a government and corporate relations consulting company) since March 1996. Prior to that, Mr. Stewart was an associate with Milner Fenerty, Barristers and Solicitors from June 1993 to March 1996. Mr. Stewart served as Member of the Legislative Assembly of the Province of Alberta from 1986 to 1993.	August 27, 1999
Jim Dinning(1) *Calgary, Alberta*	Director	Chairman of Western Financial Group since September 2004. Prior thereto, Mr. Dinning was the 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 a director of Finning International Inc. and Shaw Communications Inc.	March 24, 2004

Name and Municipality of Residence	**Position with the Corporation**	**Principal Occupation**	**Director of the Corporation Since**
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 serves on a number of industry and community boards and councils including BIOTECanada, the Ontario Genomics Institute, and the Ontario Institute for Cancer Research.	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, which is the new drug subsidiary of IVAX Corporation. He began his career in the industry with KABI in Sweden. Dr. Mettinger holds an MD from the University of Lund in Sweden and a PhD (hematology/stroke) from the Karolinska Institute in Stockholm, Sweden.	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. Dr. Cochrane 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.

As at the date hereof, the directors and senior officers as a group beneficially owned, directly or indirectly, 379,500 of our common shares, representing 1.0% 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 the ABCA, 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.

AUDIT COMMITTEE MATTERS

Mandate of the Audit Committee

1. 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.

2. Composition of the Committee

(a) 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.

(b) 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.

(c) 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.

(d) 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 accepted accounting principles. 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.

(e) 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.

3. Meetings of the Committee

(a) 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.

(b) 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.

(c) Notice of a meeting of the Audit 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 Audit Committee may permit.

(d) 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.

(e) 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.

(f) 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.

(g) 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.

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

4. Duties and Responsibilities of the Committee

(a) The Audit Committee's primary duties and responsibilities are to:

(i) identify and monitor the management of the principal risks that could impact the financial reporting of the Corporation ;

(ii) monitor the integrity of the Corporation's financial reporting process and system of internal controls regarding financial reporting and accounting compliance;

(iii) 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 ;

(iv) deal directly with the external auditors to pre-approve external audit plans, other services (if any) and fees;

(v) directly oversee the external audit process and results (in addition to items described in Section 4(d) below);

(vi) provide an avenue of communication among the external auditors, management and the Board; and

(vii) 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.

(viii) Pre-approve any related party transactions to be entered into by the Company, and ensure appropriate disclosure thereof.

(ix) Ensure financial disclosure incorporates inclusion of any material correcting adjustments required by the external auditors.

(x) Require and ensure that the external auditors are directly responsible to the Audit Committee, to whom they report

(b) The Audit Committee shall have the authority to:

(i) inspect any and all of the books and records of the Corporation and its affiliates;

(ii) 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;

(iii) engage independent counsel and other advisors as it determines necessary to carry out its duties; and

(iv) to set and pay the compensation for any advisors employed by the Audit Committee.

(c) 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.

(d) The Audit Committee shall:

(i) review the audit plan with the Corporation's external auditors and with management;

(ii) 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;

(iii) 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;

(iv) 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;

(v) review with senior management the process of identifying, monitoring and reporting the principal risks affecting financial reporting;

(vi) 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.

(vii) 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;

(viii) review with financial management and the external auditors the quarterly unaudited financial statements and management discussion and analysis before release to the public;

(ix) 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

(x) 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.

(e) The Audit Committee shall:

(i) 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.;

(ii) consider the recommendations of management in respect of the appointment of the external auditors;

(iii) 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;

(iv) 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;

(v) 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

(vi) 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.

(f) 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.

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

(h) The Audit Committee shall review the Corporation's accounting and reporting of costs, liabilities and contingencies.

(i) The Audit Committee shall establish and maintain procedures for:

(i) the receipt, retention and treatment of complaints received by the Corporation regarding accounting controls, or auditing matters; and

(ii) the confidential, anonymous submission by employees of the Corporation or concerns regarding questionable accounting or auditing matters.

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

(k) 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.

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

5. Date of Mandate

This Mandate was initially approved by the Board on September 3, 1999. Subsequent to that date, the Board has amended and restated this Mandate on each of December 13, 2002 April 23, 2003, March 5, 2004 and December 8, 2004. This Mandate is effective from and after December 13, 2005.

Composition of the Audit Committee

The following table sets forth the name of each of the current members of the Audit Committee, whether such member is independent, whether such member is financially literate and the relevant education and experience of such member.

Name	Independent	Financially Literate	Relevant Education and Experience
Fred A. Stewart, Q.C. (Chairman)	Yes	Yes	Mr. Stewart graduated with Bachelor of Commerce (Saskatchewan) and Bachelor of Law (Toronto) and is a Barrister and Solicitor (Queens Counsel). Mr. Stewart served as a Member of Cabinet in the Legislative Assembly of the Province of Alberta. Mr. Stewart has acquired significant financial experience and exposure to accounting and financial issues as a founding partner of his law firm, as a Member of the Treasury Board of the Government of Alberta and while serving as a director and audit committee member of both private and public companies.
Robert B. Schultz F.C.A.	Yes	Yes	Mr. Schultz is a Fellow of the Chartered Accountants and is currently Chairman and Director of Rockwater Capital Corporation (a financial services company). Mr. Schultz has served as Chairman and Chief Executive Officer of Merrill Lynch Canada (a public financial services company) and as Chief Executive Officer of Midland Walwyn. Through his various roles as Chairman and Chief Executive Officer, Mr. Schultz has supervised the individual engaged in preparing, analyzing or evaluating financial statements. Mr. Schultz has also served as a director with several other public companies.
Jim Dinning	Yes	Yes	Mr. Dinning is currently Chairman of the Board of Western Financial Group. He graduated with a bachelor of commerce honours degree and a master's degree in public administration from Queen's University. Mr. Dinning served as a Member of the Legislative Assembly of the Province of Alberta from 1986 to 1997. Mr. Dinning has acquired significant financial experience and exposure to accounting and financial issues while serving as a director and audit committee member for other publicly traded companies and as Minister of Finance for the Alberta Provincial Government.

RISK FACTORS

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 conducted by us 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 Oncolytics Biotech Inc., 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 developed by us will be affected by numerous factors beyond our control, including:

- 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 product under development has 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 FDA in the United States and similar regulatory authorities in other countries may deny approval of a NDA or NDS 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 other jurisdictions, as the case may be. 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, by and large, 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 and, 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 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 us. 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 patents in the United States, Canada and Europe and have filed applications for patents in the United States and under the PCT, allowing us to 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 are 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 it was 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 October 2000 in the United States are 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, and the patents of other parties could require us 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 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, which are uninsured

The sale and use of our products entail risk of product liability. We currently do not have any product liability insurance. 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 sole 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 affect 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 affect 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, 2005, we had an accumulated deficit of $51.0 million. We have incurred net losses of $13.0 million, $13.0 million, and $8.5 million for the years ended December 31, 2005, 2004, and 2003, respectively. We anticipate that we will continue to incur significant losses during 2006 and in the foreseeable future. We will not reach profitability until after successful 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 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, 2005, we had cash and cash equivalents (including short-term investments) of $40.4 million and working capital of approximately $39.3 million. We anticipate that we may 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. There can be no assurance that additional funding will be available or, if available, that it will be available on acceptable terms. 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 expense 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 will 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, Dr. Thompson, Dr. Coffey, Mr. Ball, Dr. Gill and Dr. Mettinger, 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.

We presently carry key man insurance in the amounts of $1,500,000, $1,000,000 and $500,000 for Dr. Thompson, Dr. Coffey and Mr. Ball, respectively.

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 and consulting expenses in foreign currencies (to date mainly in the U.S. and the UK). Over the past year the Canadian dollar has appreciated relative to these currencies thereby decreasing the Canadian dollar equivalent. However, if this trend reverses, our Canadian dollar equivalent costs will increase.

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 is 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.

We believe we are a passive foreign investment company, which may have a material affect on U.S. holders.

We believe we are a “passive foreign investment company” (“PFIC”), which may have a material affect on U.S. holders. United States income tax legislation contains rules governing PFICs, which can have significant tax effects on U.S. holders of foreign corporations. A U.S. holders who holds stock in a foreign corporation during any year in which such corporation qualifies as a PFIC is subject to United States federal income taxation under one of two alternative tax regimes at the election of each such U.S. holders. 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 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”). You should consult your tax advisor as to the consequences of acquiring, owning or disposing of our Common Shares.

ADDITIONAL INFORMATION

Legal Proceedings

We are not aware of any material legal proceedings nor are we aware of any such proceedings being contemplated.

Interest of Management and Others in Material Transactions

Other than as discussed herein, there are no material interests, direct or indirect, of directors, executive officers, senior officers, or any direct or indirect shareholder of ours who beneficially owns, or who exercises control over, more than 10% of our outstanding common shares or any known associate or affiliate of such persons, in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or will materially affect us.

Transfer Agent and Registrar

The transfer agent and registrar for our common shares is Computershare Trust Company of Canada at its principal offices in Calgary, Alberta and Toronto, Ontario.

Material Contracts

Other than as discussed herein, there are no material contracts, other than contracts entered into in the ordinary course of business, that are material to us that were entered into within the most recently completed financial year, or before the most recently completed financial year but are still in effect.

Interests of Experts

Ernst & Young LLP, Chartered Accountants, have audited our financial statements for the year ended December 31, 2005, as set forth in our Annual Report.

As at the date hereof, the partners and associates of Ernst & Young LLP, Chartered Accountants, our independent auditors, as a group did not beneficially own any of our outstanding common shares.

External Auditor Service Fees

During the financial years ended December 31, 2005, 2004 and 2003, Ernst & Young LLP received the following fees:

	December 31,		
	2005	2004	2003
Item	$	$	$
Audit fees	63,500	60,460	44,600
Audit-related fees (1),(3),(4)	20,250	33,354	34,062
Tax fees (2)	9,048	22,150	9,946
All other fees	—	—	—

Notes:

(1) Includes review of interim financial statements, accounting consultations and subscription to on-line accounting.
(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 prospectus offerings in 2004 and 2003.
(4) Includes fees associated with preliminary internal control work for Sarbanes Oxley Section 404.

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

There were no fees paid to Ernst & Young, LLP that would be considered All Other Fees in 2004 or 2003. Fees to be disclosed under this category would be for products and services other than those described under the headings Audit Fees, Audit-Related Fees and Tax Fees above.

Other Additional Information

Additional information, including information as to our directors' and officers' remuneration and indebtedness, principal holders of our securities, options to purchase securities and interests of insiders in material transactions is contained in our Information Circular for our most recent annual meeting of shareholders that involved the election of directors, which is incorporated herein by reference and forms an integral part of this Annual Information Form.

Additional financial information is contained in our financial statements for the year ended December 31, 2005 and under the heading "Management's Discussion and Analysis of Financial Conditions and Results of Operations" in our 2005 Annual Report, which are incorporated herein by reference and form an integral part of this Annual Information Form.

The documents referred to above as well as additional information relating to us is available through the Internet on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

Alternatively, a request for any documents referred to above may be made to the Chief Financial Officer, Oncolytics Biotech Inc., Suite 210, 1167 Kensington Crescent N.W., Calgary, Alberta, Canada, T2N 1X7 or by telecopier at (403) 283-0858.

GLOSSARY

In this Annual Information Form, unless the context otherwise requires, the following words and phrases shall have the meaning set forth below:

ABCA — *Business Corporations Act* (Alberta), as amended.

ACB — Alberta Cancer Board.

Activating mutations — a type of genetic mutation that results in a particular protein being active in the absence of an appropriate stimuli. This type of mutation typically leads to the development of a cancerous transformation of a cell.

Adjuvant therapy — a form of therapy that is to be used in conjunction with one or more addition therapies.

Alberta Heritage Foundation – the Alberta Heritage Foundation for Medical Research.

Animal model — a human disease given to an animal which exhibits similar or identical characteristics to this disease in humans.

Appropriate Regulatory Authority — means (a) Health Canada, (b) the Food and Drug Administration in the United States, or (c) the comparable authorities in the following countries or areas: United Kingdom, France, Germany, Japan, Benelux.

Asymptomatic — without any signs or symptoms.

Cancer — a heterogeneous group of diseases that is characterized by the uncontrolled or aberrant growth of cells. In addition to the uncontrolled growth of these tumour cells, these cells are able to invade and colonize other sites in the body; by definition these tumours are malignant.

Carcinomas — a type of cancer that arises from epithelial tissue.

Cellular proliferative disorder — a heterogeneous group of disease characterized by the uncontrolled or aberrant growth of cells; is distinct from cancer in that it does not necessarily imply a malignant state.

Clinical Trial Agreement — the agreement among Oncolytics Biotech Inc., Dr. Don Morris and the ACB dated May 1, 1999, providing for, among other things, a repayable grant of $200,000 to us to offset the future REOLYSIN® clinical trial expenditures.

Cytostatic — any drug or agent that is capable of preventing a cell's growth and division.

Cytotoxic — any drug or agent that is capable of causing cell death.

Differentiation — a form of growth; a process whereby a cell develops different or more advanced processes than were possessed by the cell before.

Epidermal growth factor — a compound that promotes the growth of cells.

Epidermal growth factor receptor — the cellular receptor that interacts with the epidermal growth factor; a particular family of receptor tyrosine kinase.

Epithelial — the tissue that forms the outer layer of the body surface or the tissue that lines the gut or other hollow structure.

Etiology — the reason or causation of an illness, disease or disorder.

FDA — the Food and Drug Administration

Gastrointestinal tract — within the digestive system including the stomach, intestine, and all accessory organs.

Glioblastoma — a specific form of cancer derived from brain tissue.

Gliomas — a specific form of cancer derived from brain tissue.

Good Manufacturing Practices — the current regulatory requirements and standards regarding quality assurance procedures to be adhered to in the manufacturing of therapeutic products established and monitored by various governments including Canada and the United States.

Growth factor receptor — a form of receptor that interacts with growth factors.

HER2/neu/ErbB2 — a form of receptor tyrosine kinase that is frequently overexpressed in breast cancers.

Immune competent — an animal with a fully functional immune system; an animal that can mount a response to a foreign or infectious agent.

Immuno-compromised — an animal that is lacking an immune system.

Investigational New Drug Submission (or IND) — documentation filed with government agencies responsible for evaluating and licensing pharmaceutical drugs. This documentation is necessary for the initiation of clinical trials.

In Vivo — in the living body.

Lesion — a morbid change in the functioning or texture of an organ or tissue.

Metastasis — the process whereby a tumour cell is able to leave the original tumour mass and spread to secondary sites in the body forming additional tumour sites.

Mitogenic — a drug or agent that promotes cellular division or growth.

Neoplasia — a group of diseases characterized by uncontrolled cell growth, including, but not limited to, cancer.

Nucleus — an organelle in the cell that contains genetic material.

Oncology — the study and treatment of cancer and tumours.

Patent Cooperation Treaty or PCT — an international patent treaty, of which Canada is a signatory, whereby a single international patent application can be filed in the applicant's or inventor's home country for possible protection of intellectual property in over 100 PCT member countries.

PKR (or double stranded RNA dependent protein kinase) — a host protein that plays a key role in mediating the cell's antiviral activity.

Platelet-derived growth factor receptor (PDGFR) — the cellular receptor that interacts with the platelet-derived growth factor; a particular family of receptor tyrosine kinase.

Ras — a cellular protein that is a key relay in the transmission of growth signals from the outside of the cell to the cell's nucleus. In a noncancerous cell, Ras is activated in the presence of an appropriate growth signal.

Receptor — a cellular structure, usually found on the cell surface, that can interact with a certain compound to elicit a specific type of cellular response.

Receptor tyrosine kinase (RTK) — a type of host receptor that uses a particular residue for cellular signaling to the nucleus. Mutation or overexpression of this type of receptor is frequently seen in the development of a variety of cancers.

REOLYSIN® — is our trademark for the human reovirus for the treatment of a specific disease.

Reovirus — a double stranded RNA virus first identified in 1959. The name is an acronym for Respiratory Enteric Orphan virus. The virus is given the designate of orphan virus since it is not associated with a known disease state. For the purpose of this document, all reference to reovirus is to reovirus type III Dearing.

Research Contract — an agreement between Oncolytics Biotech Inc. and the Governors of the University of Calgary, providing for the aggregate sum of $102,000 to be paid by us for a research project under the direction and supervision of Dr. Patrick Lee.

Share Purchase Agreement — the share purchase agreement among the Vendors, SYNSORB and Oncolytics Biotech Inc. dated April 21, 1999 providing for the purchase by SYNSORB of all of our issued and outstanding shares.

Signal Transduction — The transmission of signals from the cell surface to the cell's nucleus.

SYNSORB — SYNSORB Biotech Inc. (now Iteration Energy Ltd. by name change formerly Hawker Resources Inc.), a public Company incorporated under the ABCA.

Technology Commercialization Agreement — the agreement between Oncolytics Biotech Inc. and the Alberta Heritage Foundation dated February 9, 1999 providing for a repayable grant of $150,000 to us to offset reovirus clinical trial expenditures.

TCID50 —a measure of viral particle concentration.

Toxicology — the scientific determination of the quantity of a substance that is required to act adversely in the body.

Tumour — an abnormal growth of tissue whether benign or malignant.

Vendors — Dr. Patrick Lee, Dr. James Strong, Dr. Matthew Coffey, Dr. Bradley Thompson and University Technologies International Inc.

Financial Statements

Oncolytics Biotech Inc.
December 31, 2005 and 2004

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

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

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

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

The 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 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 the 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 financial statements. Their examination included such tests and procedures as they considered necessary to provide reasonable assurance that the 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 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 balance sheets of Oncolytics Biotech Inc. as at December 31, 2005 and 2004 and the statements of loss and deficit and cash flows for each of the years in the three year period ended December 31, 2005 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. We were not engaged to perform an audit of the Company's internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are

appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2005 and 2004 and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2005 and the cumulative period from inception on April 2, 1998 in accordance with Canadian generally accepted accounting principles.

Calgary, Canada
February 8, 2006

/s/ Ernst & Young LLP
Chartered Accountants

Oncolytics Biotech Inc.

BALANCE SHEETS

As at December 31

	2005 $	2004 $
ASSETS		
Current		
Cash and cash equivalents	**3,511,357**	12,408,516
Short-term investments	**36,894,810**	21,510,707
Accounts receivable	**47,390**	47,767
Prepaid expenses	**540,368**	250,365
	40,993,925	34,217,355
Capital assets *[note 4]*	**189,863**	261,688
Intellectual property *[note 5]*	**5,110,538**	4,997,598
Investments *[notes 7 and 8]*	**—**	12,000
	46,294,326	39,488,641
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	**1,692,481**	949,258
Alberta Heritage Foundation loan *[note 6]*	**150,000**	150,000
Commitments and contingency *[notes 9 and 10]*		
Shareholders' equity		
Share capital *[note 11]*		
Authorized: unlimited		
Issued: 36,236,748 (2004 - 31,915,496)	**84,341,212**	66,643,325
Warrants *[note 11]*	**4,429,932**	3,347,630
Contributed surplus *[notes 2,7, 12 and 13]*	**6,413,243**	6,349,139
Deficit	**(50,732,542)**	(37,950,711)
	44,451,845	38,389,383
	46,294,326	39,488,641

See accompanying notes

On behalf of the Board:

/s/ Brad Thompson
Director

/s/ Doug Ball
Director

Oncolytics Biotech Inc.

STATEMENTS OF LOSS AND DEFICIT

For the periods ended December 31

	2005 $	2004 $	2003 $	Cumulative from inception on April 2, 1998 to December 31, 2005 $
Revenue				
Rights revenue	**—**	—	—	310,000
Interest income	**783,456**	699,757	313,305	3,569,196
	783,456	699,757	313,305	3,879,196
Expenses				
Research and development *[note 10]*	**9,308,977**	7,107,998	2,818,962	32,835,505
Operating	**3,084,897**	2,803,669	2,449,478	13,090,691
Stock based compensation *[note 12]*	**64,104**	2,668,570	996,707	3,762,099
Foreign exchange loss	**253,608**	358,068	2,881	613,578
Amortization - intellectual property	**786,459**	686,717	594,353	3,162,791
Amortization - capital assets	**69,532**	65,039	69,171	355,046
	13,567,577	13,690,061	6,931,552	53,819,710
Loss before the following:	**12,784,121**	12,990,304	6,618,247	49,940,514
Gain on sale of BCY LifeSciences Inc. *[note 8]*	**(765)**	(34,185)	(264,453)	(299,403)
Loss on sale of Transition Therapeutics Inc. *[note 8]*	**—**	—	2,156,685	2,156,685
Loss before taxes	**12,783,356**	12,956,119	8,510,479	51,797,796
Capital tax (recovery)	**(1,525)**	—	33,552	49,746
Future income tax recovery *[note 15]*	**—**	—	—	(1,115,000)
Net loss for the year	**12,781,831**	12,956,119	8,544,031	50,732,542
Deficit, beginning of year	**37,950,711**	24,994,592	16,450,561	—
Deficit, end of year	**50,732,542**	37,950,711	24,994,592	50,732,542
Basic and diluted loss per share *[note 14]*	**(0.39)**	(0.45)	(0.35)	

See accompanying notes

Oncolytics Biotech Inc.

STATEMENTS OF CASH FLOWS

For the periods ended December 31

	2005 $	2004 $	2003 $	Cumulative from inception on April 2, 1998 to December 31, 2005 $
OPERATING ACTIVITIES				
Net loss for the year	**(12,781,831)**	(12,956,119)	(8,544,031)	(50,732,542)
Deduct non-cash items				
Amortization - intellectual property	**786,459**	686,717	594,353	3,162,791
Amortization - capital assets	**69,532**	65,039	69,171	355,046
Stock based compensation *[note 12]*	**64,104**	2,668,570	996,707	3,762,099
Loss on sale of Transition Therapeutics Inc.	**—**	—	2,156,685	2,156,685
Other non-cash items *[note 19]*	**224,508**	379,895	(261,572)	(773,148)
Net changes in non-cash working capital *[note 19]*	**584,766**	(69,065)	(489,051)	1,092,999
Cash used in operating activities	**(11,052,462)**	(9,224,963)	(5,477,738)	(40,976,070)
INVESTING ACTIVITIES				
Intellectual property	**(1,033,035)**	(958,809)	(1,045,869)	(4,656,670)
Capital assets	**(61,309)**	(15,230)	(50,729)	(587,511)
Purchase of short-term investments	**(22,195,253)**	(6,777,179)	(18,111,608)	(47,084,040)
Redemption of short-term investments	**6,656,746**	3,114,000	—	9,770,746
Investment in BCY LifeSciences Inc.	**7,965**	133,609	450,151	464,602
Investment in Transition Therapeutics Inc.	**—**	—	2,552,695	2,532,343
Cash used in investing activities	**(16,624,886)**	(4,503,609)	(16,205,360)	(39,560,530)
FINANCING ACTIVITIES				
Alberta Heritage Foundation loan	**—**	—	—	150,000
Proceeds from exercise of stock options and warrants	**3,384,787**	8,121,296	700,882	14,967,068
Proceeds from private placements	**15,395,402**	6,223,763	9,844,700	38,137,385
Proceeds from public offerings	**—**	9,150,902	5,459,399	30,793,504
Cash provided by financing activities	**18,780,189**	23,495,961	16,004,981	84,047,957
Increase (decrease) in cash and cash equivalents during the period	**(8,897,159)**	9,767,389	(5,678,117)	3,511,357
Cash and cash equivalents, beginning of the period	**12,408,516**	2,641,127	8,319,244	—
Cash and cash equivalents, end of the period	**3,511,357**	12,408,516	2,641,127	3,511,357
Cash interest received	**993,097**	459,757	187,843	
Cash taxes paid (net)	**—**	—	1,552	

See accompanying notes

Oncolytics Biotech Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005 and 2004

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, the Company changed its name to Oncolytics Biotech Inc.

The Company is 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. The product being developed by the Company 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 the shares of the Company. In connection with the acquisition, the basis of accounting for the assets and liabilities of Oncolytics was changed to reflect SYNSORB’s cost of acquiring its interest in such assets and liabilities (i.e. reflecting SYNSORB’s purchase cost in the financial statements of the Company). The amount by which SYNSORB’s purchase price exceeded the underlying net book value of the Company’s assets and liabilities at April 21, 1999 was $2,500,000. Such amount has been credited to contributed surplus and charged to intellectual property which will be 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 the Company’s common shares, sales of the Company’s shares by SYNSORB and a distribution of SYNSORB’S ownership interest in the Company to its shareholders *[note 7]*. As a result, SYNSORB no longer has any ownership in the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles. These policies are, in all material respects, in accordance with United States generally accepted accounting principles except as disclosed in note 20. The financial statements have, in management’s opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

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 generally accepted accounting principles 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 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 the Company’s financial statements include the assessment of the net realizable value of long lived assets and the amortization period of intellectual property.

Cash and cash equivalents

Cash and cash equivalents consists of cash on hand and balances with the Company’s bank including interest bearing deposits earning an average interest rate of 2.9% (2004 – 2.26%).

Short-term investments

Short-term investments consisting primarily of bankers’ acceptances, treasury bills and bonds and are liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value and with original maturities less than two years at the time of purchase, and are carried at the lower of amortized cost and market value. Gains and losses on disposal of short-term investments are included in income in the period of realization. Premiums or discounts are amortized over the remaining maturity of the instrument and reported in interest income.

Capital assets

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

Costs relating to acquiring and establishing intellectual property (mainly patents) are recorded at cost, net of recoveries. Amortization of the intellectual property is on a straight-line basis over seventeen years or estimated useful life (currently estimated to be ten years) and begins on the earlier of a patent being granted or its utilization. The Company assesses potential impairment of its intellectual property when any events

that might give rise to impairment are known to the Company by measuring the expected net recovery from products based on the use of the intellectual property.

Investments

Investments are accounted for at cost and written down only when there is evidence that a decline in value that is other than temporary has occurred.

Foreign exchange

Transactions originating in foreign currencies are translated into Canadian dollars 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 year.

Research and development

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.

The Company uses 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

The Company has 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 the Board of Directors. Under the Plan, the exercise price of each option equals the market price of the Company's 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 ten years from the date of grant.

Stock based compensation

Officers, Directors and Employees
Effective January 1, 2003, the Company prospectively adopted the fair value based method of accounting for employee awards granted under its stock option plan (see note 12). The Company calculates 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. Previously, the intrinsic value method was used. The following tables provide pro forma net loss and pro forma basic and diluted net loss per share had compensation expense, for awards granted in 2002, been based on the fair value method of accounting for stock based compensation:

	2005 $	2004 $	2003 $
Reported net loss	12,781,831	12,956,119	8,544,031
Compensation expense	983	4,425	46,533
Pro forma net loss	12,782,814	12,960,544	8,590,564
Reported basic and diluted net loss per share	(0.39)	(0.45)	(0.35)
Pro forma basic and diluted net loss per share	(0.39)	(0.45)	(0.35)

As this policy has been applied prospectively, comparative information has not been restated.

Non-employees
Stock based compensation to non-employees is recorded at the 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.

Future income taxes

The Company follows 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 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.

Newly Adopted Canadian Accounting Standards

GAAP Hierarchy and General Standards of Financial Statement Presentation

In 2005, the Company adopted the new CICA Handbook Sections 1100, “Generally Accepted Accounting Principles,” and 1400, “General Standards of Financial Statement Presentation”. Section 1100 describes what constitutes Canadian GAAP and its sources and provides guidance on sources to consult when selecting accounting policies and determining appropriate disclosures when a matter is not dealt with explicitly in the primary sources of generally accepted accounting principles, thereby re-codifying the Canadian GAAP hierarchy. Section 1400 provides general guidance on financial statement presentation and further clarifies what constitutes fair presentation in accordance with GAAP. The application of this standard had no impact on the financial position or results of operations of the Company.

Future Changes in Accounting Policy

Non-monetary Transactions

In 2006, the Company will prospectively adopt the new Canadian standard, Non-monetary Transactions, which requires application of fair value measurement to non-monetary transactions determined by a number of tests. The new standard is consistent with recently amended US standards. The Company does not expect this standard to have a significant impact on its financial statements upon adoption.

Financial Instruments

On January 1, 2007, the Company will prospectively adopt the new Canadian accounting standards for financial instruments and comprehensive

income. These new accounting standards will impact our accounting policy for investment securities. The new rules will require the Company to classify these securities as held-to-maturity or available-for-sale. Available-for-sale securities will be measured at fair value with gains and losses recorded in a new section of shareholders' equity called other comprehensive income. There will be no change in accounting for held-to-maturity securities. The Company does not expect these standards to have a significant impact on its financial statements upon adoption as the Company's short-term investments will be classified as held-to-maturity securities.

4. CAPITAL ASSETS

	2005		
	Cost	**Accumulated Amortization**	**Net Book Value**
Medical equipment	**30,201**	**7,178**	**23,023**
Office equipment	**27,869**	**17,627**	**10,242**
Office furniture	**91,080**	**49,840**	**41,240**
Computer equipment	**167,111**	**84,561**	**82,550**
Leasehold improvements	**117,333**	**84,525**	**32,808**
	433,594	**243,731**	**189,863**

	2004		
	Cost	**Accumulated Amortization**	**Net Book Value**
Medical equipment	191,502	82,498	109,004
Office equipment	29,576	16,163	13,413
Office furniture	88,788	43,046	45,742
Computer equipment	126,322	66,205	60,117
Leasehold improvements	96,636	63,224	33,412
	532,824	271,136	261,688

In 2005, the Company donated the medical equipment used in its Canadian glioma clinical trial to the clinical trial site. The amount of the donation was $66,069 and equates to the net book value of the medical equipment donated. This amount has been recorded as a clinical trial cost within research and development expenses.

5. INTELLECTUAL PROPERTY

	2005		
	Cost	**Accumulated Amortization**	**Net Book Value**
Intellectual property	**8,273,328**	**3,162,790**	**5,110,538**

	2004		
	Cost	**Accumulated Amortization**	**Net Book Value**
Intellectual property	7,373,742	2,376,144	4,997,598

6. ALBERTA HERITAGE FOUNDATION LOAN

The Company has 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.

7. RELATED PARTY TRANSACTIONS

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 with an offsetting credit recorded to contributed surplus.

8. INVESTMENTS

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 this transaction and the transaction described in note 7, the Company held a total of 2,394,445 BCY shares. During 2005, the Company sold 120,000 (2004 – 697,945; 2003 – 1,496,500) of its BCY shares for net cash proceeds of $7,965 (2004 – $133,609; 2003 – $450,151) recording a gain on sale of investment of $765 (2004 – $34,185; 2003 – $264,453). As at December 31, 2005, the Company's remaining ownership in BCY was 80,000 common shares with a book value $4,800. These common shares will be released from escrow in February 2006; consequently the remaining investment in BCY has been reclassified as a short term investment. The warrants expired out of the money.

On June 14, 2002, the Company acquired 6,890,000 common shares of Transition Therapeutics Inc. ("TTH"), a public company, through the issuance of 1,913,889 common shares of the Company from treasury. The investment was recorded at $4,709,380 (including acquisition costs of $20,352) based on the trading price of the Company's shares at the time of acquisition. On June 6, 2003, the Company sold all of its 6,890,000 common shares of TTH for net cash proceeds of $2,552,695 recording a loss on sale of investment of $2,156,685.

9. COMMITMENTS

The Company is committed to payments totaling $1,138,000 during 2006 for activities related to its clinical trial program and collaborations.

The Company is committed to monthly rental payments (excluding the Company's 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"), the Company has 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. The Company 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.

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10. 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, 2005, 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 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.

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11. SHARE CAPITAL

Authorized:

Unlimited number of 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 on exercise of stock options	40,000	34,000	—	—
Issued on acquisition of the interest in Transition Therapeutics Inc. *[note 8]*	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)	—	—

Issued:	**Shares**		**Warrants**	
	Number	**Amount $**	**Number**	**Amount $**
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 10]	21,459	150,000	—	—
Exercise of warrants	1,907,175	8,178,546	(1,907,175)	(798,096)
Expired warrants	—	2,827	(6,700)	(2,827)
Exercise of options	197,500	778,951	—	—
Share issue costs	—	(1,796,758)	—	—
Balance, December 31, 2004	31,915,496	66,643,325	2,855,340	3,347,630
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	—	1,496,514	(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	84,341,212	2,784,800	4,429,932

(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.

(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 the 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, the Company 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 entitles 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, the Company 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.

(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 entitles 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, the Company 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 Option Pricing Model.

(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 entitles 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, the Company 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

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$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 Option Pricing Model.

(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 entitles 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, the Company 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 $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 Option Pricing Model.

(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 entitles 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, the Company 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 Option Pricing Model.

(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 entitles 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, the Company 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 Option Pricing Model.

(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 entitles 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, the Company 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 Option Pricing Model.

(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 entitles 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, the Company 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 Option Pricing Model.

The following table summarizes the Company's outstanding warrants as at December 31, 2005:

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)
$ 4.00	768,972	—	768,972	—	—	—
$ 5.00	45,558	—	2,280	43,278	—	—
$ 5.65	—	320,000	—	—	320,000	3.00
$ 6.15	—	1,600,000	—	—	1,600,000	3.00
$ 6.25	529,750	—	—	529,750	—	—
$ 7.00	107,710	—	—	107,710	—	—
$ 7.06	112,800	—	—	—	112,800	0.40
$ 7.75	538,550	—	—	538,550	—	—
$ 8.00	752,000	—	—	—	752,000	1.90
	2,855,340	1,920,000	771,252	1,219,288	2,784,800	2.60

12. STOCK BASED COMPENSATION

Stock Option Plan

The Company has issued stock options to acquire common stock through its stock option plan of which the following are outstanding at December 31:

	2005		2004	
	Stock Options	Weighted Average Share Price $	Stock Options	Weighted Average Share Price $
Outstanding at beginning of year	**3,805,550**	**4.39**	2,800,800	3.81
Granted during year	**200,000**	**3.18**	1,202,250	5.63
Cancelled during year	**(21,000)**	**—**	—	—
Exercised during year	**(350,000)**	**0.85**	(197,500)	3.77
Outstanding at end of year	**3,634,550**	**4.66**	3,805,550	4.39
Options exercisable at end of year	**3,387,050**	**4.77**	3,717,050	4.41

The following table summarizes information about the stock options outstanding and exercisable at December 31, 2005:

Range of Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price $	Number Exercisable	Weighted Average Exercise Price $
$0.75 - $1.00	632,550	3.8	0.85	632,550	0.85
$1.65 - $2.37	281,000	6.9	1.85	246,000	1.87
$2.70 - $3.33	678,750	7.9	3.10	478,750	3.06
$4.00 - $5.00	1,190,750	8.7	4.89	1,178,250	4.89
$6.77 - $9.76	708,500	6.2	8.66	708,500	8.66
$12.15 - $13.50	143,000	4.8	12.63	143,000	12.63
	3,634,550	6.4	4.66	3,387,050	4.77

The outstanding options vest annually or after the completion of certain milestones. The Company has reserved 3,662,461 common shares for issuance relating to outstanding stock options.

As the Company is following the fair value based method of accounting for stock option awards, compensation expense related to options granted to employees and consultants was $43,886 (2004 – $2,537,088; 2003 – $812,711) and $20,218 (2004 – $131,482; 2003 – $102,466) respectively with an offsetting credit to contributed surplus.

Oncolytics Biotech Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005 and 2004

The estimated fair value of stock options issued during the year was determined using the Black-Scholes model using the following weighted average assumptions and fair value of options:

	2005	2004	2003
Risk-free interest rate	**3.27%**	2.83%	3.09%
Expected hold period to exercise	**3.5 years**	2 years	2 years
Volatility in the price of the Company's shares	**64%**	71%	69%
Dividend yield	**Zero**	Zero	Zero
Weighted average fair value of options	**$ 1.51**	$ 2.26	$ 1.47

In 2002, the Company granted 48,000 share incentive rights to a non-employee which, when exercised by the holder, would require payment in cash or shares, at the sole option of the Company for amounts in excess of $2.31 based on the weighted average trading price for the ten trading days prior to the exercise. The Company accounted for this transaction with a non-employee at fair value determined using the Black-Scholes model. The related compensation expense recorded in 2003 was $81,530, with an offsetting credit to contributed surplus. During 2005, these share incentive rights were surrendered. In accordance with generally accepted accounting principles, no credit to expense was recorded as a result of the surrender.

13. CONTRIBUTED SURPLUS

The following table summarizes the change in contributed surplus for the period ending December 31:

	2005	2004
Balance, beginning of year	**6,349,139**	3,699,425
Stock based compensation	**64,104**	2,683,869
Exercise of stock options	**—**	(34,155)
Balance end of year	**6,413,243**	6,349,139

14. 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, 2005 of 32,804,540 (2004 – 29,028,391; 2003 – 24,242,845). The effect of any potential exercise of the Company's 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.

15. INCOME TAXES

The provision for income taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory income tax rate to the loss before tax as follows:

	2005 $	2004 $	2003 $
Loss before taxes	**(12,783,356)**	(12,956,119)	(8,510,479)
Statutory Canadian corporate tax rate	**33.60%**	33.87%	36.75%
Anticipated tax recovery	**(4,295,208)**	(4,388,238)	(3,127,601)
Non-taxable portion of net capital loss (gain)	**(129)**	(16,717)	347,698
Employee stock based compensation	**21,539**	903,845	366,290

Cancellation of contingent payment obligation settled in common shares	**—**	50,805	—
Change in tax rate	**102,309**	242,119	272,506
Tax return adjustment	**78,995**	(43,509)	—
Non-deductible expenses	**8,113**	8,976	9,739
Change in valuation allowance (a)	**4,084,381**	3,242,719	2,131,368
Future income tax recovery	**—**	—	—

(a) As of December 31, 2005, the Company has non-capital losses for income tax purposes of approximately $34,176,000, which are available for application against future taxable income and expire in 2006 ($663,000) 2007 ($1,033,000), 2008 ($2,898,000), 2009 ($4,483,000), 2010 ($4,483,000), 2014 ($9,075,000) and 2015 ($11,541,000) . In addition to the loss carry forward amounts above, the Company has scientific research and development claims and related investment tax credits of approximately $8,170,000 and $1,997,000 respectively as at December 31, 2005 which are available for application against future taxable income. The potential benefits resulting from these tax pools have been recognized in the financial statements only to the extent they are more likely than not of being realized.

The components of the Company's future income tax asset are as follows:

	2005 $	**2004 $**
Non-capital loss carryforwards	**11,483,387**	8,010,356
Scientific research and development	**2,745,133**	2,113,447
Investment tax credits	**1,997,300**	1,721,119
Net capital loss carryforwards	**283,822**	283,627
Undepreciated capital costs in excess of book value of capital assets and intellectual property	**325,377**	22,269
Share issue costs	**772,133**	683,239
Valuation allowance	**(17,607,152)**	(12,834,057)
Future tax asset	**—**	—

16. INDEMNIFICATION OF OFFICERS AND DIRECTORS

The Company's corporate by-laws require that, except to the extent expressly prohibited by law, the Company will indemnify its 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. The Company has 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. The Company believes that it has adequate insurance coverage; however there is no guarantee that all indemnification payments will be covered under the Company's existing insurance policies.

There is no pending litigation or proceeding involving any officer or director of the Company as to which indemnification is being sought, nor is the Company aware of any threatened litigation that may result in claims for indemnification.

17. FINANCIAL INSTRUMENTS

Financial instruments of the Company consist of cash and cash equivalents, short term investments, accounts receivable, investments, accounts payable, and the Alberta Heritage Foundation loan. As at December 31, 2005, there are no significant differences between the carrying values of these amounts and their estimated market values.

Credit risk

The Company is exposed to credit risk on its short-term investments in the event of non-performance by counterparties, but does not anticipate such non-performance. The Company mitigates its exposure to credit risk by restricting its portfolio to investment grade securities with short term

maturities and by monitoring the credit risk and credit standing of counterparties.

Interest rate risk
The Company has exposure to interest income risk through its short-term investments in fixed-income securities that are sensitive to interest rate fluctuations.

Foreign exchange risk
The Company purchases goods and services denominated primarily in Canadian, U.S. and UK currencies. To manage its foreign exchange risk, the Company, from time to time, acquires short-term investments denominated in these securities.

18. ECONOMIC DEPENDENCE

The Company contracts the production and currently receives its supplies of REOLYSIN® from one toll manufacturer based in the United Kingdom. There are a limited number of potential producers and suppliers of REOLYSIN®. As a result, any significant disruption of the services provided by this toll manufacturer has the potential to delay the progress of the Company's clinical trial program. Management is aware of and is taking actions to minimize this exposure.

19. ADDITIONAL CASH FLOW DISCLOSURE

Net Change In Non-Cash Working Capital

	2005 $	**2004 $**	**2003 $**	**Cumulative from inception on April 2, 1998 to December 31, 2005**
Change in:				
Accounts receivable	**377**	16,457	(15,688)	(47,390)
Prepaid expenses	**(290,003)**	(93,528)	(79,679)	(540,368)
Accounts payable and accrued liabilities	**743,223**	64,330	(378,192)	1,692,481
Change in non-cash working capital	**453,597**	(12,741)	(473,559)	1,104,723
Net change associated with investing activities	**131,169**	(56,324)	(15,492)	(11,724)
Net change associated with operating activities	**584,766**	(69,065)	(489,051)	1,092,999

Oncolytics Biotech Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005 and 2004

Other Non-Cash Items

	2005 $	**2004 $**	**2003 $**	**Cumulative from inception on April 2, 1998 to December 31, 2005**
Foreign exchange loss	**159,204**	264,080	2,881	425,186
Donation of medical equipment *[note 4]*	**66,069**	—	—	66,069

Gain on sale of BCY LifeSciences Inc.	**(765)**	(34,185)	(264,453)	(299,403)
Cancellation of contingent payment obligation settled in common shares *[note 10]*	**—**	150,000	—	150,000
Future income tax recovery	**—**	—	—	(1,115,000)
	224,508	379,895	(261,572)	(773,148)

20. RECONCILIATION OF CANADIAN GAAP TO US GAAP

The financial statements of the Company are prepared in accordance with Canadian GAAP which, in most respects, conforms to US GAAP. Significant differences between Canadian and US GAAP are as follows:

	Notes	Year Ended December 31 2005 $	2004 $	2003 $	Cumulative from inception on April 2, 1998 to December 31, 2005 $
Net loss - Canadian GAAP		**12,781,831**	12,956,119	8,544,031	50,732,542
Amortization of intellectual property	(1)	**(361,500)**	(361,500)	(361,500)	(2,349,750)
Future income tax recovery	(1)	**—**	—	—	1,115,000
Net loss - US GAAP		**12,420,331**	12,594,619	8,182,531	49,497,792
Unrealized loss (gain) on available-for-sale securities	(2)	**—**	—	(45,715)	2,423,699
Reclassification of unrealized gain (loss) on available-for-sale securities	(2)	**—**	45,715	(2,469,414)	(2,423,699)
Comprehensive loss - US GAAP		**12,420,331**	12,640,334	5,667,402	49,497,792
Basic and diluted loss per common share - US GAAP		**(0.38)**	(0.43)	(0.34)	—

There are no differences between Canadian GAAP and US GAAP in amounts reported as cash flows from (used in) operating, financing and investing activities.

Balance sheet items in accordance with US GAAP are as follows:

		December 31, 2005		December 31, 2004	
	Notes	Canadian GAAP	US GAAP	Canadian GAAP	US GAAP
Intellectual property	(1)	**5,110,538**	**3,845,288**	4,997,598	3,370,848
Investments	(2)	**—**	**—**	12,000	12,000
Future income taxes	(1)	**—**	**—**	—	—
Contributed surplus	(1)	**6,413,243**	**3,913,243**	6,349,139	3,849,139
Deficit	(1)	**50,732,542**	**49,497,792**	37,950,711	37,077,461
Other comprehensive loss (income)	(2)	**—**	**—**	—	—

Oncolytics Biotech Inc.

NOTES TO FINANCIAL STATEMENTS

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 US GAAP, this would not be capitalized on acquisition.

As a result of removing the $2,500,000 from intellectual property in 1999 for US 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. Unrealized Gains and Losses on Investments

Under U.S. GAAP, equity securities, having a readily determinable fair value and not classified as trading securities, are classified as "available-for-sale securities" and reported at fair value, with unrealized gains and losses included in comprehensive income or loss and reported as a separate component of shareholders' equity net of related deferred income taxes. Declines in the fair value of individual available-for-sale securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. Under Canadian GAAP, these securities are carried at cost and written down only when there is evidence that a decline in value that is other than temporary has occurred.

Stock Based Employee Compensation

On January 1, 2003, the Company prospectively adopted the fair value based method for its employee options (see note 3). Consequently there were no differences between Canadian GAAP and U.S. GAAP with respect to options granted subsequent to this date.

In 2002, the Company applied the intrinsic value method for employee stock options and the fair value method for non-employee options granted after January 1, 2002. Prior to January 1, 2002, for US GAAP, the Company applied the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its employee stock option plans. As well, the Company provided pro forma disclosure as required by FAS 123 for those options granted prior to January 1, 2002.

The following additional pro-forma disclosure would be provided under US GAAP with respect to the fair value of employee options granted prior to January 1, 2002. The fair value for these options granted was estimated at the date of grant using a Black-Scholes Option Pricing Model with the following weighted-average assumptions:

	2001
Risk free interest rate	5.0%
Dividend yield	0%
Volatility factors of expected market price	87%
Weighted average expected life of the options	2 years

Pro forma disclosures of loss and loss per common share are presented below as if the Company had adopted the cost recognition requirements under FAS 123 from inception.

		2005 $	**2004 $**	**2003 $**
Net Loss	Pro forma - Canadian GAAP	**12,782,814**	12,960,544	8,590,564
	As reported - US GAAP	**12,420,331**	12,594,619	8,182,531
	Pro forma - US GAAP	**12,421,314**	12,599,044	8,236,440
Basic and diluted net loss per common share	Pro forma - Canadian GAAP ($/share)	**(0.39)**	(0.45)	(0.35)
	As reported - US GAAP	**(0.38)**	(0.43)	(0.34)

Pro forma - US GAAP ($/share)	**(0.38)**	(0.43)	(0.34)

Additional Stock Based Payment Disclosure

As at December 31, 2005, the aggregate intrinsic value of the stock options outstanding and the stock options exercisable were $5,595,845 and $5,058,570, respectively. The total intrinsic value of the options exercised in 2005 was $1,223,400 (2004 – 1,253,014; and 2003 – 195,715).

A summary of the Company's non-vested shares as of December 31, 2005 and changes during the year ended December 31, 2005 is as follows:

	2005	
	Stock Options	**Weighted Average Grant Date Fair Value $**
Non-vested at beginning of year	**88,500**	1.06
Granted during year	**200,000**	1.51
Vested during year	**(41,000)**	1.45
Forfeited during year	**—**	—
Non-vested at end of year	**247,500**	1.36

As of December 31, 2005, there was $335,750 of total unrecognized compensation costs related to non-vested stock options granted under the Company's stock option plan. This cost is expected to be recognized over a weighted average period of 2.12 years. The total fair value of shares vested during the years ended December 31, 2005, 2004 and 2003 was $59,630, $8,250 and $nil, respectively.

The Company issues shares from treasury to satisfy any exercises of stock options.

21. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

March 2, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following information should be read in conjunction with our 2005 audited financial statements and notes thereto, which were prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

FORWARD-LOOKING STATEMENTS

The following discussion contains forward-looking statements, within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements, including our belief as to the potential of REOLYSIN® as a cancer therapeutic and our expectations as to the success of our research and development and manufacturing programs in 2006 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. Such risks and uncertainties include, among others, the need for and availability of funds and resources to pursue research and development projects, the efficacy of REOLYSIN® as a cancer treatment, the success and timely completion of clinical studies and trials, our ability to successfully commercialize REOLYSIN®, uncertainties related to the research, development and manufacturing of pharmaceuticals, uncertainties related to competition, changes in technology, the regulatory process and general changes to the economic environment. Investors should consult our quarterly and annual filings with the Canadian and U.S. securities commissions for additional information on risks and uncertainties relating to the forward-looking statements. Forward looking statements are based on assumptions, projections, estimates and expectations of management at the time such forward looking statements are made, and such assumptions, projections, estimates and/or expectations could change or prove to be incorrect or inaccurate. Investors are cautioned against placing undue reliance on forward-looking statements. We do not undertake to update these forward-looking statements.

OVERVIEW

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.

General Risk Factors

Prospects for biotechnology companies in the research and development stage should generally be regarded as speculative. It is not possible to predict, based upon studies in animals, or early studies in humans, whether a new therapeutic will ultimately prove to be safe and effective in humans, or whether necessary and sufficient data can be developed through the clinical trial process to support a successful product application and approval.

If a product is approved for sale, product manufacturing at a commercial scale and significant sales to end users at a commercially reasonable price may not be successful. There can be no assurance that we will generate adequate funds to continue development, or will ever achieve significant revenues or profitable operations. Many factors (e.g. competition, patent protection, appropriate regulatory approvals) can influence the revenue and product profitability potential.

In developing a pharmaceutical product, we rely upon our employees, contractors, consultants and collaborators and other third party relationships, including the ability to obtain appropriate product liability insurance. There can be no assurance that these reliances and relationships will continue as required.

In addition to developmental and operational considerations, market prices for securities of biotechnology companies generally are volatile, and may or may not move in a manner consistent with the progress being made by Oncolytics.

REOLYSIN ® Development Update For 2005

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 supply, and our intellectual property.

Clinical Trial Program

In the first part of 2005, we reported that we received regulatory clearance to commence three additional clinical trial studies. The first trial approved in 2005 was our first co-therapy study that is investigating REOLYSIN® in combination with radiation therapy in the United Kingdom ("U.K."). Our second and third trials that received regulatory clearance were two United States ("U.S.") clinical trial studies. The first of these trials was a Phase I/II recurrent malignant glioma clinical trial. The second was a Phase I systemic delivery clinical trial.

During 2005, we commenced patient enrollment in the U.K. combination radiation therapy and the U.S. systemic delivery clinical trials while continuing to enroll patients in our ongoing U.K. systemic delivery and Canadian glioma clinical trials. In the fourth quarter of 2005, we ended patient treatment in the Canadian glioma study and exited 2005 with three actively enrolling clinical trials.

In the fourth quarter of 2005, we reported interim results from two of our clinical trials. The first report was in conjunction with a poster presentation at the AACR-NCI-EORTC conference in Philadelphia by our principal investigator for our Phase I systemic delivery clinical trial in the U.K. Our principal investigator presented data on 22 patients and reported that REOLYSIN® is well tolerated when administered intravenously with minimal toxicity observed and that reovirus replication in tumours has been identified with evidence of tumor necrosis. The principal investigator also reported that there have been encouraging hints of activity in prostate and colorectal cancer. This trial continues to enroll and we expect that patient enrollment will be completed in 2006. We also reported on the Canadian glioma clinical trial. In this trial a total of 12 patients were enrolled. A maximum tolerated dose was not reached and REOLYSIN® was well tolerated.

Pre-Clinical Trial and Collaborative Program

We perform pre-clinical studies and engage in collaborations to help support our clinical trial programs and expand our intellectual property base. In 2005, we investigated the interaction of the reovirus with the immune system and the use of reovirus as a co-therapy with existing chemotherapies and radiation. In the fourth quarter of 2005, we reported in conjunction with one of our collaborators at the AACR-NCI-EORTC conference in Philadelphia, that reovirus enhances radiation cytotoxicity in vitro and in vivo. The results of this collaboration were also used to support our radiation co-therapy clinical trial application in the U.K.

Manufacturing and Process Development

During 2005, we contracted cGMP ("current good manufacturing practices") production runs that we believe produced sufficient REOLYSIN® to supply our existing clinical trials in the U.S. and the U.K. We also entered into process development activities that examined ways to improve the process yields.

Intellectual Property

During 2005 four Canadian patents and one European patent were issued. At the end of 2005, we exited with a total of thirteen U.S., four Canadian and two European patents. We also have other patent applications filed in the U.S., Europe and Canada and other jurisdictions.

Financial Impact

We estimated at the beginning of 2005 that our cash usage would be approximately $12,000,000 for 2005. Our actual cash usage for the year was $12,146,806 with $11,052,462 from operating activities and $1,094,344 from the purchases of intellectual property and capital assets. Our net loss for the year was $12,781,831.

Cash Resources

We have used the equity markets to acquire the cash resources required to fund our operations. In 2005, we received cash proceeds in two types of financing transactions. The first was the exercise of existing warrants in the first quarter of 2005 and options for total cash proceeds of $3,384,787. The second occurred in the fourth quarter of 2005 when we issued units comprised of one common share and one half of one common share purchase warrant for net cash proceeds of $15,395,402. We exited 2005 with cash resources totaling $40,406,167 (see *"Liquidity and Capital Resources")*.

REOLYSIN® Development For 2006

We believe that patient enrollment in our two U.K. clinical trials and our U.S. systemic trial will conclude in 2006 and we believe that we will be able to report additional patient data pertaining to these trials. The timing of when and what we are able to report will be determined in conjunction with the principal investigator and the clinical trial site.

We believe that the results from our existing clinical trials will provide us with support to expand our clinical trial program in 2006. We plan to expand our program to focus on specific cancer indications and drug combinations and move into Phase II clinical trials.

We expect to produce REOLYSIN® in 2006 to supply our expanding clinical trial program. We also plan to continue process yield improvement

and scale up studies in 2006 in an effort to continue to improve our manufacturing process.

We estimate, based on our expected activity in 2006 that our monthly cash usage for the year will increase to $1,500,000 per month (see *"Liquidity and Capital Resources"*).

Recent 2006 Progress

On January 18, 2006, the U.S. NCI issued a solicitation for Letters of Intent with respect to the conduct of two human clinical trials using REOLYSIN®. The first is a Phase II study administering REOLYSIN® systemically in patients with melanoma. The dosage and dosing regimen to be used in the study will be determined based on data derived from our ongoing U.K. and U.S. Phase I systemic administration studies. The second solicitation is for proposals for a Phase I/II study of REOLYSIN® co-administered both systemically and intraperitoneally ("IP") in patients with ovarian cancer. The purpose of the Phase I portion of the trial is to determine the Maximum Tolerated Dose of REOLYSIN® given by IP administration in combination with a constant systemic dose and dosing regimen.

On January 24, 2006, we announced that an oral presentation of the preliminary results of our Phase I combination REOLYSIN®/radiation clinical trial is scheduled to be made at the American Association of Cancer Researchers annual meeting held April 1 – 5 in Washington D.C. by our principal investigator Dr. Kevin Harrington.

ACCOUNTING POLICIES

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

Our research and development costs are expensed as they are incurred. Under Canadian generally accepted accounting principles, development costs should be capitalized if certain criteria are met. Companies with products in clinical trials do not necessarily meet these criteria. Our development costs do not meet the following two criteria: (i) the technical feasibility of the product or process has been established; and (ii) the future market for the product or process is clearly defined. With regard to (i), we have completed three Phase I clinical trials and are presently enrolling in three additional Phase I clinical trial studies for REOLYSIN®. We are also planning to add to our clinical trial program. Until the appropriate clinical studies have been completed, the technical feasibility of this product will not be known. With regard to (ii), the future market for the product will not be clearly defined until the completion of the clinical studies. Clinical studies not only determine the technical feasibility of the product, but also provide information regarding the proper use of the product and, therefore, the future market. Once the feasibility is determined a New Drug Application, or equivalent, is made to the appropriate regulatory body. Regulatory approval is required before the product can be marketed. For these reasons, our development costs are expensed and not capitalized.

Capitalization and Amortization of Patent Costs

We treat third party costs incurred (primarily legal and registration costs) in the development of our Patent portfolio as limited-life intangible assets, and we amortize the costs related to these assets over the lesser of 17 years or their estimated useful life. We also review the valuation of our Patent costs for impairment when any events that might give rise to impairment are known to us. If there is an indication of impairment, we would assess the fair value of our Patents and would record a reduction if the fair value were less than the book value.

In capitalizing these costs, we are recognizing the inherent future benefit of our Patents, not only in protection of our own potential products, but also as a possible asset that could give rise to revenues in the future through licensing agreements. While Patent life is different in different jurisdictions it is normally considered to be 20 years from date of application. With an assumption of an average of three years from initial Patent application to Patent issuance, we have set a maximum of 17 years to amortize the costs from the date of issuance. We have then assessed the nature of the market and the continuing efforts to develop and market new and better products, as well as the incurrence of costs associated with Patents that have been issued and, as a result, we have chosen to amortize the costs on a straight-line basis over ten years.

As the product to which the Patents relate is in the development stage, with commercial recognition and revenue potential highly uncertain, should we experience a significant failure in our clinical trial program or other areas of risk, then the value of the Patents could be in serious question, giving rise to a possible write-down or write-off of the asset.

In the event that we are successful in our product development and sales, or other parties enter into licensing agreements with us, then it is also possible that the Patents may have a life and value beyond the ten years assumed for the amortization policy.

In any event, the revision to any of these policies or estimates outlined above would impact losses but not impact cash flows.

Changes in Accounting Policy including Initial Adoption

GAAP Hierarchy and General Standards of Financial Statement Presentation

In 2005, we adopted the new CICA Handbook Sections 1100, “Generally Accepted Accounting Principles,” and 1400, “General Standards of Financial Statement Presentation”. Section 1100 describes what constitutes Canadian GAAP and its sources and provides guidance on sources to consult when selecting accounting policies and determining appropriate disclosures when a matter is not dealt with explicitly in the primary sources of generally accepted accounting principles, thereby re-codifying the Canadian GAAP hierarchy. Section 1400 provides general guidance on financial statement presentation and further clarifies what constitutes fair presentation in accordance with GAAP. The application of this standard had no impact on our financial position or results of operations.

Non-monetary Transactions

In 2006, we will prospectively adopt the new Canadian standard, Non-monetary Transactions, which requires application of fair value measurement to non-monetary transactions determined by a number of tests. The new standard is consistent with recently amended US standards. We do not expect this standard to have a significant impact on our financial statements upon adoption.

Financial Instruments

On January 1, 2007, we will prospectively adopt the new Canadian accounting standards for financial instruments and comprehensive income. These new accounting standards will impact our accounting policy for investment securities. The new rules will require us to classify these securities as held-to-maturity or available-for-sale. Available-for-sale securities will be measured at fair value with gains and losses recorded in a new section of shareholders’ equity called other comprehensive income. There will be no change in accounting for held-to-maturity securities. We do not expect these standards to have a significant impact on our financial statements upon adoption as our short-term investments will be classified as held-to-maturity securities.

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 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 2005, we used the following weighted average assumptions:

	2005
Risk-free interest rate	3.27%
Expected hold period to exercise	3.5 years
Volatility in the price of the our shares	64%
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 reflects our trading price volatility. However, an entity can choose between daily, weekly, monthly or quarterly trading prices in the volatility calculation. For example, based upon periods chosen, if we were to use daily trading prices, volatility would increase 34%, resulting in an option value increase of 27% from that calculated from the stated volatility. If we were to use monthly trading prices over the same period, volatility would increase 17%, resulting in an option value increase of 15%. Also, volatility would change based on the period chosen and the frequency of price points chosen.

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 3.5 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. If the hold period was to increase 1 year, there would have been a 13% increase in our stock based compensation expense.

Consequently, in complying with GAAP and selecting what we believe are the most appropriate assumptions under the circumstances, we have increased our reported non-cash employee stock based compensation expense for the year by $64,104. However, given the above discussion this expense could be increased between 13% — 27% and still be in accordance with GAAP.

Warrant Values

In 2005, we continued to raise cash through the issue of units and the exercise of warrants and options. Each issued unit consisted of one common share and 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, the Black Scholes Option Pricing Model 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 theses 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, 2005, the net book value of our original intellectual property

was $833,333. Consequently, without the application of push down accounting the value of our intellectual property and shareholders' equity would be $833,333 lower than presented in the 2005 audited financial statements.

SELECTED ANNUAL INFORMATION

	2005 $	2004 $	2003 $
Revenues(1)	783,456	699,757	313,305
Net loss(2),(4)	12,781,831	12,956,119	8,544,031
Basic and diluted loss per share (2),(4),(5)	0.39	0.45	0.35
Total assets(3),(5)	46,294,326	39,488,641	26,050,600
Total long term financial liabilities(6)	150,000	150,000	150,000
Cash dividends declared per share(7)	Nil	Nil	Nil

Notes:

(1) Revenue is comprised of interest income and income from short term investments.

(2) Included in net loss and net loss per share for 2005 is a net gain (net loss) from sale of investments of $765 (2004 - $34,185; 2003 - ($1,892,232)).

(3) Subsequent to the acquisition of Oncolytics Biotech Inc. by SYNSORB in April 1999, we applied push down accounting. See note 2 to the audited financial statements for 2005.

(4) Included in net loss and net loss per share is stock based compensation expense of $64,104 (2004 - $2,668,570; 2003 - $996,707)

(5) We issued 4,321,252 common shares for cash proceeds of $18,780,189 in 2005 (2004 - 4,685,775 common shares for cash proceeds of $23,495,961; 2003 - 5,062,978 common shares for $16,004,981). In addition, 21,459 common shares were issued in 2004 as partial consideration for the cancellation of a portion of our contingent payments (see note 10 to the audited financial statements for 2005

(6) The long-term debt recorded in 2005, 2004 and 2003 represents repayable loans from the Alberta Heritage Foundation.

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

RESULTS OF OPERATIONS

Net loss for the year ended December 31, 2005 was $12,781,831 compared to $12,956,119 and $8,544,031,for 2004 and 2003, respectively.

Research and Development Expenses ("R&D")

	2005 $	2004 $	2003 $
Manufacturing and related process development expenses	**4,714,320**	3,868,883	1,328,480
Clinical trial expenses	**1,871,942**	799,990	130,034
Pre-clinical trial expenses and collaborations	**786,488**	824,889	322,060
Cancellation of contingent payment obligation	**—**	400,000	—
Quebec scientific research and experimental development refund	**—**	(21,436)	(255,905)
Other R&D expenses	**1,936,227**	1,235,672	1,294,293
Research and development expenses	**9,308,977**	7,107,998	2,818,962

In 2005, R&D was $9,308,977 compared to $7,107,998 and $2,818,962 in 2004 and 2003, respectively.

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

M&P expenses include product manufacturing expenses and process development. Production manufacturing expenses include third party direct manufacturing costs, quality control testing, and fill 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.

	2005 $	2004 $	2003 $
Product manufacturing expenses	**4,326,577**	2,212,586	924,456
Technology transfer expenses	**—**	656,346	—
Process development expenses	**387,743**	999,951	404,024
Manufacturing and related process development expenses	**4,714,320**	3,868,883	1,328,480

Our M&P expenses in 2005 increased to $4,714,320 compared to $3,868,883 and $1,328,480 in 2004 and 2003, respectively. In 2005, we continued to focus on the production of REOLYSIN® in order to supply our expanding clinical trial program along with other research activity. In the first part of 2005, we entered into a multiple cGMP production run supply contract with Cobra Biomanufacturing Plc ("Cobra"). Later in 2005, we further expanded our cGMP production contracts by adding additional manufacturing runs. As well, we contracted Cobra to supply non-cGMP product to be used in non-human research and collaborative studies. As a result, we believe that the REOLYSIN® produced in 2004 and 2005 should be sufficient to complete our existing clinical trials.

In 2004, we entered into an agreement to commence the manufacturing of REOLYSIN® and consequently incurred expenses associated with the technology transfer of our manufacturing process. This transfer was completed in 2004. In 2003, we were producing REOLYSIN® with our former manufacturer.

We expect that our product manufacturing expenses in 2006 will remain consistent compared to 2005. We are expecting to enter into additional production run contracts to ensure a supply of REOLYSIN® for our existing and future clinical trial and collaborative programs and to supply the NCI clinical studies. However, we may choose to increase our product manufacturing commitments in 2006 if we believe we will need additional REOLYSIN® as our clinical trial program progresses.

Our process development expenses in 2005 were $387,743 compared to $999,951 and $404,024 in 2004 and 2003, respectively. We believe that improvements can be made to increase productivity. In 2005, our process development activities focused on improving process yields. In 2003 and 2004, our process development activity mainly related to establishing our own master and working viral and cell banks.

Our process development expenses in 2006 may increase compared to 2005. We will continue to work on improving process yields. We are also expecting to incur additional process development expenses associated with the scale up of our manufacturing process.

Clinical Trial Program

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

	2005 $	2004 $	2003 $
Direct clinical trial expenses	**1,675,003**	649,405	64,559
Other clinical trial expenses	**196,939**	150,585	65,475
Clinical trial expenses	**1,871,942**	799,990	130,034

In 2005, we incurred costs directly associated with ongoing clinical trials of $1,675,003 compared to $649,405 and $64,559 in 2004 and 2003, respectively. In 2005, our clinical trial program expanded to include our two U.S. studies and an additional study in the U.K. Consequently, we actively enrolled in four clinical trials in 2005 compared to only having two ongoing studies in 2004 and 2003. Also, we concluded our enrollment in the Canadian glioma study and incurred site closure expenses towards the end of 2005. In 2004, we provided a final update with respect to our T2 prostate cancer study and incurred site closure costs.

We expect our clinical trial expenses will continue to increase in 2006 compared to 2005. The increase in these expenses is expected to arise from enrollment in our existing clinical trial program and expansion into further clinical trials.

Pre-Clinical Trial Expenses and Research Collaborations

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 other viruses and identify potential licensing opportunities arising from our technology base.

	2005 $	2004 $	2003 $
Research collaboration expenses	**652,393**	262,910	120,026
Pre-clinical trial expenses	**134,095**	561,979	202,034
Pre-clinical trial expenses and research collaborations	**786,488**	824,889	322,060

In 2005, our research collaboration expenses were $652,393 compared to $262,910 and $120,026 in 2004 and 2003, respectively. In 2005, we expanded our collaborative activities to include studies investigating the interaction of the reovirus with the immune system and the use of the reovirus as a co-therapy with existing chemotherapies and radiation. In the fourth quarter of 2005, we reported the results of our collaboration with The Institute of Cancer Research that examined the combination of REOLYSIN® and radiation therapy which showed that the combination of REOLYSIN® and radiation therapy results in enhanced cytotoxicity in a range of tumour cell lines in vitro and in vivo.

In 2004, our collaborative activities included studies that used reovirus as a co-therapy in combination with existing chemotherapies and radiation. Data from our collaboration examining the use of REOLYSIN® with approved chemotherapeutics in animal models was presented in 2004. In 2003, we entered into a collaboration to develop modified adenoviruses that are selective for Ras mediated cancers.

In 2005, we incurred pre-clinical trial expenses of $134,095 compared to $561,979 and $202,034 in 2004 and 2003 respectively. The decrease in

pre-clinical trial expenses in 2005 compared to 2004 related to toxicology and equivalency studies that were performed in 2004 but not in 2005. As we move through our clinical trial program the number of pre-clinical studies required will change from year to year.

In 2006, we expect that pre-clinical trial expenses and research collaborations will remain consistent compared to 2005 and 2004. We expect to continue expanding our collaborations in order to provide support for our expanding clinical trial program. However, in our efforts to enter into additional combination therapy clinical trials we may be required to perform additional pre-clinical trial studies which could increase these costs compared to 2005 and 2004.

Other Research and Development Expenses

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

	2005 $	2004 $	2003 $
R&D consulting fees	**675,530**	290,135	187,513
R&D salaries and benefits	**1,018,144**	722,136	815,869
Other R&D expenses	**242,553**	223,401	290,911
Other research and development expenses	**1,936,227**	1,235,672	1,294,293

In 2005, our R&D consulting fees were $675,530 compared to $290,135 and $187,513 in 2004 and 2003, respectively. For the past three years, we have mainly incurred consulting activity associated with our clinical trial applications, assistance with our existing and future clinical trial program and our scientific advisory board. In 2005, we also incurred consulting expenses for executive search activities associated with the hiring of our Chief Medical Officer which was not incurred in 2004 or 2003.

Our R&D salaries and benefits were $1,018,144 in 2005 compared to $722,136 and $815,869 in 2004 and 2003, respectively. In 2005, along with increases in salary levels, we hired our Chief Medical Officer in the third quarter of 2005.

In 2006, we expect that our Other R&D expenses will remain consistent with 2005. We expect that salaries and benefits will increase as 2006 should include a complete year of salary and benefit costs for our Chief Medical Officer. Our R&D consulting fees should decline as we do not expect to incur executive search costs in 2006. However, we may choose to engage additional consultants to assist us in the development of protocols and regulatory filings for our additional combination therapy and phase II clinical trial studies possibly causing our R&D consulting expenses to increase.

Cancellation of Contingent Payment Obligation

On September 23, 2004, we reached an agreement that cancelled a portion of our future contingent obligation to one of our non-management founding shareholders for consideration of $400,000. The consideration paid included cash of $250,000 and non-cash consideration of 21,459 common shares valued at $150,000 and was recorded as additional research and development expense. The value of the common shares was based on the September 23, 2004 closing price of $6.99. As a result, our future contingent payment obligations were reduced to 11.75% (formerly in 2003 – 14.25% and 2002 – 20%) of payments received associated with a partnership or other arrangement for development. Similarly, if we develop the reovirus treatment to the point where it may be marketed at a commercial level, the payment referred to in

the foregoing sentence has been amended to a royalty payment of 2.35% (formerly in 2003 – 2.85% and 2002 – 4%) of Net Sales received by us for such products.

Operating Expenses

	2005 $	2004 $	2003 $
Public company related expenses	**2,156,614**	1,910,611	1,633,849
Office expenses	**928,283**	893,058	815,629
Operating expenses	**3,084,897**	2,803,669	2,449,478

In 2005, we incurred operating expenses of $3,084,897 compare to $2,803,669 and $2,449,478 in 2004 and 2003 respectively. The reason for

the change is as follows:

Public company related expenses include costs associated with investor relations activities, legal and accounting fees, corporate insurance, and transfer agent and other fees relating to our U.S. and Canadian stock listings. We incurred public company related expenses of $2,156,614 in 2005 compared to $1,910,611 and $1,633,849 in 2004 and 2003, respectively. In 2005, after receiving approval to commence our two U.S. clinical trials we initiated an expanded public relations and investor relations program in the U.S. The increase in 2004 related to the rising cost of directors' and officers' liability insurance which increased due to general market conditions for companies with a U.S. stock listing.

Office expenses include compensation costs (excluding stock based compensation), office rent, and other office related costs. In 2005, we incurred office expenses of $928,283 compared to $893,058 and $815,629 in 2004 and 2003, respectively. Our office expense activity has remained consistent over the last three years with increases mainly due to increased compensation and staff levels.

Stock Based Compensation

	2005 $	2004 $	2003 $
Stock based compensation	**64,104**	2,668,570	996,707

Non-cash stock based compensation recorded for 2005 was $64,104 compared to $2,668,570 and $996,707 in 2004 and 2003, respectively. This expense is associated with the granting of stock options to our employees, directors, and certain consultants and in 2005 there was a reduction in the number of stock options granted compared to 2004 and 2003.

Foreign Exchange Loss (Gain)

	2005 $	2004 $	2003 $
Foreign exchange loss (gain)	**253,608**	358,068	2,881

We acquire investments in foreign currency to pay for anticipated expenses that are to be incurred in the U.S. and the U.K. As a result of continued strengthening in the Canadian dollar relative to the U.S. dollar and British pound, we recorded a foreign exchange loss of $253,608 in 2005 compared to $358,068 and $2,881 in 2004 and 2003, respectively.

Sale of Investments

	2005 $	2004 $	2003 $
Gain on partial sale of investment in BCY LifeSciences Inc.	**(765)**	(34,185)	(264,453)
Loss on sale of investment in Transition Therapeutics Inc.	**—**	—	2,156,685
Net (gain) loss from sale of investments	**(765)**	(34,185)	1,892,232

BCY LifeSciences Inc. ("BCY")

In 2005, we sold 120,000 (2004 – 697,945; 2003 – 1,496,500) common shares of BCY for net cash proceeds of $7,965 (2004 – $133,609; 2003 – $450,151). This resulted in an accounting gain of $765 (2004 – $34,185; 2003 – $264,453). Our total cash invested with respect to our BCY investment was $127,123.

Transition Therapeutics Inc. ("TTH")

In 2003, we sold 6,890,000 common shares of TTH for net cash proceeds of $2,552,695 which had been acquired through the issuance of 1,913,889 of our common shares. As a result of the sale, an accounting loss of $2,156,685 was recorded. Our cash expenses with respect to our investment in TTH were limited to acquisition legal costs of $20,352.

Commitments

As at December 31, 2005, we are committed to payments totaling $1,138,000 during 2006 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.

Subsequent to 2005, we entered into research and development agreements and under these contracts we have committed to payments totaling $1,451,000.

SUMMARY OF QUARTERLY RESULTS

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

	2005				2004			
	Dec.	Sept.	June	March	Dec.	Sept.	June	March
Revenue(1)	160	211	168	245	205	194	183	117
Net loss(2),(5)	3,941	3,510	2,955	2,377	3,992	3,096	3,192	2,676
Basic and diluted loss per common share(2),(5)	$ 0.12	$ 0.11	$ 0.09	$ 0.07	$ 0.14	$ 0.11	$ 0.11	$ 0.10
Total assets(3),(6)	46,294	34,538	38,081	40,519	39,489	29,471	31,221	25,435
Total cash(4),(6)	40,406	28,206	31,975	34,713	33,919	23,806	25,522	20,298
Total long-term debt(7)	150	150	150	150	150	150	150	150
Cash dividends declared(8)	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

(1) Revenue is comprised of interest income and income from short term investments.

(2) Included in net loss and net loss per share between December 2005 and January 2004 is a quarterly gain (loss) on sale of investment of $nil, $nil, $nil, $765, $nil, ($12,817), ($646), and $47,648 , respectively.

(3) Subsequent to the acquisition of Oncolytics Biotech Inc. by SYNSORB in April 1999, we applied push down accounting. See note 2 to the audited financial statements for 2005.

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

(5) Included in net loss and loss per common share between December 2005 and January 2004 are quarterly stock based compensation expenses of $38,152, $4,173, $8,404, $13,375, $1,870,596, $48,878, $734,670, and $5,426, respectively.

(6) We issued 4,321,252 common shares for cash proceeds of $18,789,596 during 2005 (2004 – 4,685,775 common shares for $23,495,961). In addition, 21,459 common shares were issued in September 2004 as partial consideration for the cancellation of a portion of our contingent payments (see note 10 to the audited financial statements for 2005).

(7) The long-term debt recorded represents repayable loans from the Alberta Heritage Foundation.

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

FOURTH QUARTER

Statement of loss for the three month period ended December 31, 2005 and 2004

	2005 **$** ***(unaudited)***	**2004** **$** ***(unaudited)***
Interest income	**159,841**	204,941
Research and development expenses	**2,809,943**	1,425,286
Operating expenses	**973,470**	690,628
Stock based compensation	**38,152**	1,879,596
Foreign exchange loss (gain)	**55,127**	4,104
Amortization	**223,708**	197,280
	4,100,400	4,196,894
Loss before the following:	**3,940,559**	3,991,953
Gain on sale of investment in BCY	**—**	—
Loss before taxes	**3,940,559**	3,991,953
Capital tax	**—**	—

Net loss	**3,940,559**	3,991,953

Review of Operations

For the three month period ended December 31, 2005, our net loss was $3,940,559 compared to $3,991,953 for the three month period ended December 31, 2004. The reasons for the increase are as follows:

Research and Development Expenses ("R&D")

	2005 $ ***(unaudited)***	**2004 $** ***(unaudited)***
Manufacturing and related process development expenses ("M&P")	**1,129,891**	507,869
Clinical trial expenses	**717,265**	366,852
Pre-clinical trial expenses and research collaborations	**262,015**	89,425
Other R&D expenses	**700,772**	461,140
Research and development expenses	**2,809,943**	1,425,286

Our R&D expenses increased to $2,809,943 in the fourth quarter of 2005 compared to $1,425,286 in the fourth quarter of 2004.

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

	2005 $ ***(unaudited)***	**2004 $** ***(unaudited)***
Product manufacturing expenses	**951,667**	324,671
Technology transfer expenses	**—**	120,546
Process development expenses	**178,224**	62,652
Manufacturing and related process development expenses	**1,129,891**	507,869

Our M&P expenses increased to $1,129,891 in the fourth quarter of 2005 compared to $507,869 in the fourth quarter of 2004. In the fourth quarter of 2005, we continued to focus on the production of REOLYSIN® by commencing additional production runs with Cobra. In the fourth quarter of 2004, we had finished the technology transfer to Cobra and had begun producing REOLYSIN®.

Our process development costs were $178,224 in the fourth quarter of 2005 compared to $62,652 in the fourth quarter of 2004. In the fourth quarter of 2005, our process development activities related to the improvement of process yields. In the fourth quarter of 2004, process development activities related to the technology transfer to Cobra.

Clinical Trial Program

	2005 $ ***(unaudited)***	**2004 $** ***(unaudited)***
Direct clinical trial expenses	**657,405**	227,221
Other clinical trial expenses	**59,860**	139,631
Clinical trial expenses	**717,265**	366,852

Our clinical trial expenses for the fourth quarter of 2005 were $717,265 compared to $366,852 for the fourth quarter of 2004. In the fourth quarter of 2005, we were actively enrolling patients in three clinical trials in the U.S. and the U.K. and incurred clinical trial site closure costs associated with the Canadian malignant glioma trial. In the fourth quarter of 2004, we were actively enrolling in the U.K. systemic and the Canadian malignant glioma clinical trials.

Pre-Clinical Trial Expenses and Research Collaborations

	2005 $ *(unaudited)*	2004 $ *(unaudited)*
Research collaboration expenses	**224,673**	89,425
Pre-clinical trial expenses	**37,342**	—
Pre-clinical trial expenses and research collaborations	**262,015**	89,425

Our pre-clinical trial expenses and research collaborations were $262,015 in the fourth quarter of 2005 compared to $89,425 in the fourth quarter of 2004. In the fourth quarter of 2005, our research collaborations continued to expand to include the interaction of the immune system and reovirus and the use of reovirus as a co-therapy with existing chemotherapies. In the fourth quarter of 2004, our research collaboration activity mainly related to the use of reovirus as a co-therapy with existing chemotherapies and the development of modified adenoviruses that are selective for Ras mediated cancers.

Other Research and Development Expenses

	2005 $ *(unaudited)*	2004 $ *(unaudited)*
R&D consulting fees	**124,936**	108,697
R&D salaries and benefits	**455,771**	274,640
Other R&D expenses	**120,065**	77,803
Other research and development expenses	**700,772**	461,140

Our other research and development expenses were $700,772 for the fourth quarter of 2005 compared to $461,140 for the fourth quarter of 2004. The increase mainly related to the hiring of our Chief Medical Officer at the end of the third quarter of 2005.

Operating Expenses

	2005 $ *(unaudited)*	2004 $ *(unaudited)*
Public company related expenses	**672,010**	438,349
Office expenses	**301,460**	252,279
Operating expenses	**973,470**	690,628

Our operating expenses for the fourth quarter of 2005 were $973,470 compared to $690,628 for the fourth quarter of 2004. This increase corresponds to an increase in investor relations activity in the fourth quarter of 2005 compared to the fourth quarter of 2004.

Stock Based Compensation

	2005 $ *(unaudited)*	2004 $ *(unaudited)*

Stock based compensation	**38,152**	1,879,596

Our non-cash stock based compensation recorded for the fourth quarter of 2005 was $38,152 compared to $1,879,596 for the fourth quarter of 2004. The stock based compensation expense in the fourth quarter of 2005 related to the vesting of previously granted options. In the fourth quarter of 2004, stock based compensation expense related to the granting of options to officers, directors and employees.

Financing Activities

On December 29, 2005, we issued 3,200,000 units for gross cash proceeds of $16,480,000. Each unit consisted of one common share and one half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to acquire on common share in our capital 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 to the agent of this transaction. The broker warrants expire on December 29, 2008.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

As at December 31, 2005, we had cash and cash equivalents (including short-term investments) and working capital positions of $40,406,167 and $39,301,444, respectively, compared to $33,919,223 and $33,268,097, respectively, for 2004. The increase in 2005 reflects the cash inflow of $18,780,189 from one private placement and proceeds from the exercise of warrants and options. Cash usage from operating activities and the purchase of intellectual property and capital assets in 2005 was $12,146,806 which was in line with our estimate of $12,000,000 for 2005.

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. In 2006, we are expecting to expand our clinical trial program to include additional co-therapy clinical trials and Phase II clinical trials. We are also expecting to continue with our collaborative studies pursuing support for our future clinical trial program. Therefore, we will also need to ensure that we have enough REOLYSIN® to supply our potentially expanding clinical trial and collaborative programs. We presently estimate the cash usage for 2006 to increase to $1,500,000 per month and we believe our existing capital resources are adequate to fund our current plans for research and development activities into 2008. Factors that will affect our anticipated monthly burn rate include, but are not limited to, the number of manufacturing runs required to supply our clinical trial program and the cost of each run, the number of clinical trials ultimately approved, the timing of patient enrollment in the 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, and the level of pre-clinical activity undertaken.

In the event that we choose to seek additional capital, we will look to fund additional capital requirements primarily through the issue of additional equity. We recognize the challenges and uncertainty inherent in the capital markets and the potential difficulties we might face in raising additional capital. Market prices and market demand for securities in biotechnology companies are volatile and there are no assurances that we will have the ability to raise funds when required.

Capital Expenditures

We spent $1,033,035 on intellectual property in 2005 compared to $958,809 in 2004. The change in intellectual property expenditures reflects the timing of filing costs associated with our expanded patent base. As well, we have benefited from a stronger Canadian dollar as our patent costs are typically incurred in U.S. currency. In 2005, four Canadian and one European patents were issued bringing our total patents issued to thirteen in the U.S., four in Canada and two in Europe.

Contractual Obligations

We have the following contractual obligations as at December 31, 2005:

Contractual Obligations	**Payments Due by Period**				
	Total $	**Less than 1 year $**	**1-3 years $**	**4-5 years $**	**After 5 years $**
Long term debt[1]	150,000	—	—	—	150,000
Capital lease obligations	Nil	—	—	—	—
Operating leases[2]	484,445	89,436	178,872	178,872	37,265
Purchase obligations	1,138,000	1,138,000	—	—	—

Other long term obligations	Nil	—	—	—	—
Total contractual obligations	1,772,445	1,227,436	178,872	178,872	187,265

Note:

(1) Our long term debt is a $150,000 loan from the Alberta Heritage Foundation. Repayments are required upon the realization of sales (see note 9 of the Company's audited 2005 financial statements).
(2) Our operating leases are comprised of our office lease and exclude our portion of operating costs.

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

Investing Activities

Under our Investment Policy, we are permitted to invest in short-term instruments with a rating no less than R-1 (DBRS) with terms less than two years. We have $36,894,810 invested under this policy and we are currently earning interest at an effective rate of 2.9%.

OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2005, we have not entered into any off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

In 2005 and 2004, we did not enter into any related party transactions.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

We do not use financial derivatives or “other financial instruments”.

RISK FACTORS AFFECTING FUTURE PERFORMANCE

All of our potential products, including REOLYSIN(R), 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(R), for human application, the riskiest stage for a company in the biotechnology industry. It is not possible to predict, based upon studies in animals, or early studies in humans, whether REOLYSIN(R)will prove to be safe and effective in humans. REOLYSIN(R)will require additional research and development, including extensive clinical testing, before we will be able to obtain the approval of the United States Food and Drug Administration (the “FDA”) or from similar regulatory authorities in other countries to market REOLYSIN(R)commercially. There can be no assurance that the research and development programs conducted by us will result in REOLYSIN(R)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 Oncolytics Biotech Inc., 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 favorable results. If we are unable to establish that REOLYSIN(R)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 developed by us will be affected by numerous factors beyond our control, including:

- 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 factors may make manufacturing of products 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 product under development has 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 FDA in the United States and other relevant regulatory authorities may deny approval of a new drug application ("NDA") or its equivalent in the relevant jurisdiction 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 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 other jurisdictions, as the case may be. 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, by and large, generally similar to that of Canada and 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 anticipated to be manufactured by us 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 and, 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 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.

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

The sale and use of our products entail risk of product liability. We currently do not have any product liability insurance. 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.

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 the respective niche markets effectively or adapting our businesses to evolving customer or medical requirements or preferences or emerging industry standards.

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, 2005, we had an accumulated deficit of $50.7 million and we incurred net losses of $12.8 million, $13.0 million, and $8.5 million for the years ended December 31, 2005, 2004, and 2003, respectively. We anticipate that we will continue to incur significant losses during 2006 and in the foreseeable future. We will not reach profitability 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 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, 2005, we had cash and cash equivalents (including short-term investments) of $40.4 million and working capital of approximately $39.3 million. We anticipate that we may 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. There can be no assurance that additional funding will be available or, if available, that it will be available on acceptable terms. 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 continue to increase substantially or may not be available to us 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 is becoming 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 incur some of our expenses in foreign currencies and therefore 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 Great British pound ("GBP"). Over the past year the Canadian dollar has appreciated relative to the U.S. dollar and the GBP thereby decreasing the Canadian dollar equivalent. However, if this trend reverses, our Canadian dollar equivalent costs will increase.

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 principle. As interest rates change the amount of interest income we earn will be directly impacted.

OTHER MD&A REQUIREMENTS

We have 36,236,748 common shares outstanding at March 2, 2006. If all of our warrants and options were exercised we would have 42,656,098 common shares outstanding.

Our 2005 Annual Information Form is available on www.sedar.com.

Disclosure Controls and Procedures

As of the year ending December 31, 2005, we carried out an evaluation, under the supervision of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective as of the end of the period covered by the annual filings based on this evaluation.

EXHIBIT 99-A

CERTIFICATIONS PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Brad Thompson, certify that:

1. I have reviewed this annual report on Form 40-F of Oncolytics Biotech Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this annual report;

4. The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the issuer and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 3, 2006

By: /s/ Brad Thompson
Brad Thompson
Chief Executive Officer

EXHIBIT 99-B

CERTIFICATIONS PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Doug Ball, certify that:

1. I have reviewed this annual report on Form 40-F of Oncolytics Biotech Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this annual report;

4. The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the issuer and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 3, 2006

By: /s/ Doug Ball
Doug Ball
Chief Financial Officer

EXHIBIT 99-C

CERTIFICATIONS PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this annual report on Form 40-F of Oncolytics Biotech Inc. for the period ended December 31, 2005, I, Brad Thompson, Chief Executive Officer of the issuer, certify that:

1. The annual report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the annual report fairly presents, in all material respects, the financial condition and results of operations of the issuer.

Date: March 3, 2006

By: /s/ Brad Thompson
Brad Thompson
Chief Executive Officer

This certification accompanies the annual report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the issuer for purposes of Section 18 of the Securities Exchange Act of 1934.

EXHIBIT 99-D

CERTIFICATIONS PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this annual report on Form 40-F of Oncolytics Biotech Inc. for the period ended December 31, 2005, I, Doug Ball, Chief Financial Officer of the issuer, certify that:

1. The annual report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the annual report fairly presents, in all material respects, the financial condition and results of operations of the issuer.

Date: March 3, 2006

By: /s/ Doug Ball
Doug Ball
Chief Financial Officer

This certification accompanies the annual report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the issuer for purposes of Section 18 of the Securities Exchange Act of 1934.

EXHIBIT 99-E

CONSENT OF INDEPENDENT CHARTERED ACCOUNTANTS

We consent to the incorporation by reference in this Annual Report (Form 40-F) of Oncolytics Biotech Inc. of our report dated February 8, 2006, included in the 2005 annual report to shareholders of Oncolytics Biotech Inc.

Calgary, Canada
March 3, 2006

"Ernst & Young LLP"
Chartered Accountants

EXHIBIT 99-F

ONCOLYTICS BIOTECH INC. ("the Company")

CODE OF ETHICS

This Code of Ethics is applicable to the Chief Executive Officer, the Chief Financial Officer, the Controller and all accounting officers performing similar functions.

The Company requires ethical conduct in the practice of financial management and any and all activities that impact on the financial results of the Company from all its officers and employees (collectively, the "Financial Officers").

The Financial Officers hold important roles in corporate governance and financial reporting. They are uniquely positioned and empowered to ensure that the Company's and its stockholders, interests are appropriately balanced, protected and preserved. This code provides principles that these officers must adhere to and advocate. This code is designed to designed to deter wrongdoing and to promote:

- honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- full, fair, accurate, timely, and understandable disclosure in reports and documents that a company files with, or submits to, the SEC and in other public communications made by the company;
- compliance with applicable governmental laws, rules and regulations;
- the prompt internal reporting of code violations to an appropriate person or persons identified in the code; and
- accountability for adherence to the code.

The Financial Officers will:

- Act at all times with honesty, integrity and independence, avoiding actual or apparent conflicts of interest in personal and professional relationships
- Discuss with the appropriate level (senior management or board), in advance, any transaction that reasonably could be expected to give rise to a conflict of interest.
- Provide full, fair, accurate, complete, objective, and timely financial disclosures in documents filed or submitted to the Securities and Exchange Commission, any other government agency or self-regulatory organization, or used in public communications.
- Comply with the Company's policies and procedures, which includes compliance with all applicable rules and regulations of applicable

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governments, commissions and exchanges in jurisdictions within which the Company conducts its activities.

- Act in good faith with due care, diligence and without knowingly misrepresenting material facts or allowing my better judgment to be subordinated.
- Protect and respect the confidentiality of information acquired in the course of my work except when authorized or otherwise legally obligated to disclose. Confidential information acquired in the course of my work will not be used for personal advantage.
- Be recognized as a responsible partner among my colleagues.
- Responsibly use and control assets and other resources employed or entrusted to my supervision.
- Proactively promote and be an example of ethical behavior as a responsible partner among peers, in the work environment and the community.
- Promptly report to the Chairman of the Audit Committee any conduct that the individual believes to be a violation of law or business ethics or any provision of the Company's Codes of Conduct, including any transaction or relationship that reasonably could be expected to give rise to such conflict.

Violations of this Code of Ethics, including failures to report potential violations by others, will be viewed as a severe disciplinary matter that may

result in personnel action, including termination of employment. If you believe that a violation of the Code of Ethics has occurred, please contact the Chairman of the Audit Committee.

It is against the Company's policy to retaliate against any employee for good faith reporting of violations of this code.

Approved by Resolution April 23, 2003