UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 40-F

(Check one)

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☒ **ANNUAL REPORT PURSUANT TO SECTION 13(A) OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended: December 31, 2006 **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, indicate by check mark the information filed with this Form:

☒ Annual information form ☒ 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, 2006, 36,520,748 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-_____ ☒ 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.

☒ 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 "Exchange Act") on Form 40-F. We are a "foreign private issuer" as defined in Rule 3b-4 under the Exchange 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® 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.

DIFFERENCES IN UNITED STATES AND CANADIAN REPORTING PRACTICES

We are permitted, under a multi-jurisdictional disclosure system adopted by the United States, to prepare this annual report in accordance with Canadian disclosure requirements, which are different from those of the United States. We prepare our financial statements, which are filed with this report on Form 40-F, in accordance with Canadian generally accepted accounting practices ("GAAP"), and, as such, our financial statements may be subject to Canadian auditing and auditor independence standards and may not be comparable to financial statements of United States companies. Significant differences between Canadian GAAP and United States GAAP are described in Note 19 of the Audited Financial Statements included herein by reference.

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 29, 2006, 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 $1.1652.

ANNUAL INFORMATION FORM

Our Renewal Annual Information Form ("AIF") for the fiscal year ended December 31, 2006 is filed as part of this report and incorporated by reference herein.

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 19 — 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

At the end of the period covered by this report, an evaluation was carried out under the supervision of and with the participation of our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the design and operations of our disclosure controls and procedures (as defined by Rule 13a – 15(e) and Rule 15d – 15(e) under the Exchange Act. Based on that evaluation, the CEO and the CFO have concluded that, as of the end of the period covered by the report,

our disclosure controls and procedures were adequately designed and effective in ensuring that information required to be disclosed by us in reports that we file of submit to the Securities and Exchange Commission under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in applicable rules and forms.

In addition, our CEO and CFO have determined that the disclosure controls and procedures are effective to ensure that material information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow for accurate, required disclosure to be made on a timely basis.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, and has designed such internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles (GAAP), including a reconciliation to U.S. GAAP.

Management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our internal controls and procedures over financial reporting 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 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. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has evaluated the design and operation of our internal control over financial reporting as of December 31, 2006, and has concluded that such internal control over financial reporting is effective as of December 31, 2006. There are no material weaknesses that have been identified by management in this regard. This assessment was based on criteria for effective internal control over financial reporting described in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. As this report is required for U.S. reporting purposes, and we are a "foreign private issuer" as defined in Rule 3b-4 of the U.S. Securities and Exchange Act of 1934, as amended, and we are not a "large accelerated filer", our auditors have not attested to management's evaluation of internal controls over financial reporting for the year ended December 31, 2006.

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.

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 2006 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 and in accordance with the rules of the NASDAQ marktet.

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 our board of directors to be independent within the criteria referred to above under the subheading “Independence”. Mr. Schultz is not deemed to be an expert for any purpose, including without limitation, Section 11 of the Securities Act of 1933, as amended, as a result of having been designated or identified as an audit committee financial expert.

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, 2006 and December 31, 2005 are set forth under the heading *"Additional Information – External Auditor Service Fees"* of our 2006 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 the Province of Alberta and our common shares are listed for trading on The Toronto Stock Exchange. We comply with the laws of the Province of Alberta and rules and regulations of The Toronto Stock Exchange, including rules related to corporate governance practices. A description of the significant ways in which our governance practices differ from those followed by domestic companies pursuant to Section 4350 of the Nasdaq Marketplace Rules is as follows:

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

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

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 2, 2007

DOCUMENTS FILED AS PART OF THIS REPORT

1. Renewal Annual Information Form of the Registrant for the year ended December 31, 2006

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, 2006 and 2005;
   Statements of Loss and Deficit for the years ended December 31, 2006, 2005, 2004, and cumulative from inception on April 2, 1998 to December 31, 2005;

   Statements of Cash Flows for the years ended December 31, 2006, 2005, 2004, 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

99.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.
99.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.
99.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
99.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
99.E	Consent of Ernst & Young LLP, Independent Accountants
99.F	Code of Ethics for Chief Executive Officer, Chief Financial Officer and Controller



RENEWAL ANNUAL INFORMATION FORM

for the Year Ended December 31, 2006

March 2, 2007

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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 2007 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 1990s. 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 December 22, 2006, we reported that we had received a letter of approval from the U.K. Medicines and Healthcare products Regulatory Agency ("MHRA") for our Clinical Trial Application to begin a clinical trial using intravenous administration of REOLYSIN ® in combination with paclitaxel and carboplatin in patients with advanced cancers including melanoma, lung, and ovarian. The combination of paclitaxel and carboplatin chemotherapy is used in cancer patients with ovarian and lung cancers, and is also used widely in the treatment of many other types of cancer.

In studies conducted by the U.S. National Cancer Institute ("NCI"), the combination of REOLYSIN ® and paclitaxel was uniformly synergistic against six non-small cell lung cancer cell lines examined, including cell lines resistant to paclitaxel or REOLYSIN®. Preclinical studies conducted at Cornell University also found that REOLYSIN® in combination with platinum drugs enhanced the cytotoxicity of the chemotherapeutic agents.

This trial has two components. The first is an open-label, dose-escalating, non-randomized study of REOLYSIN ® given intravenously with paclitaxel and carboplatin every three weeks. Standard dosages of paclitaxel and carboplatin will be delivered with escalating dosages of REOLYSIN® intravenously. A maximum of three cohorts will be enrolled in the REOLYSIN ® dose escalation portion. The second component of the trial will immediately follow and will include the enrolment of a further 12 patients at the maximum dosage of REOLYSIN® in combination with standard dosages of paclitaxel and carboplatin.

Eligible patients include those who have been diagnosed with advanced or metastatic solid tumours such as melanoma, lung and ovarian cancers that are refractory (have not responded) to standard therapy or for which no curative standard therapy exists. The primary objective of the trial is to determine the maximum tolerated dose ("MTD"), dose limiting toxicity ("DLT"), recommended dose and dosing schedule and safety profile of REOLYSIN® when administered in combination with carboplatin and paclitaxel. Secondary objectives include the evaluation of immune response to the drug combination, the body's response to the drug combination compared to chemotherapy alone and any evidence of anti-tumour activity.

On December 22, 2006, we commenced patient enrolment in our U.K. Phase II clinical trial to evaluate the anti-tumour effects of direct injection of REOLYSIN® in combination with low-dose radiation in patients with advanced cancers.

On November 9, 2006, we reported additional clinical results from our first systemic administration study. Results of our UK Phase I systemic administration clinical trial investigating the use of REOLYSIN ® to treat patients with advanced cancers indicated that REOLYSIN ® can be delivered systemically to various tumour types and cause virus-mediated tumour responses. A total of 33 patients were treated in the trial to a maximum daily dose of $1x10^{11}$ $TCID_{50}$. A maximum tolerated dose was not reached and the treatment appears to have been well tolerated by the patients.

Toxicities possibly related to REOLYSIN® treatment in this trial have generally been mild (grade 1 or 2) and have included chills, fever, headache, cough, runny nose, sore throat and fatigue. Transient grade 3 toxicities include lymphopenia, neutropenia and troponin I. These symptoms were more frequently observed from day two of treatment and usually lasted less than six hours.

Of the patients assessed, anti-tumour activity was noted in seven patients. Patients were assessed with CT scans, and where possible tumour marker assessment, and histopathology of tumour biopsies. Two patients with colorectal cancer had tumour stabilization (one for three months, the other classified as stable disease for six months) and had CEA tumour marker reduction of 27% and 60% respectively. One

patient with metastatic prostate cancer had stable disease for four months, had a 50% decrease in PSA, and had extensive product-induced necrosis with associated intratumoural viral replication in metastatic lesions in the lymph nodes. One patient with metastatic bladder cancer had stable disease for four months and had a minor tumour response in a metastatic lesion in a lymph node (reduction from 2.5 to 1.9 cm). A patient with pancreatic cancer and a patient with lung cancer had stable disease for four months. A patient with endometrial cancer had stable disease for five months

On August 23, 2006, we reported that we had completed patient enrolment in our Phase I U.S. clinical trial investigating the systemic delivery of REOLYSIN® to treat patients with advanced cancers. A total of 18 patients were treated in the Phase I trial with REOLYSIN ® at escalating dosages of $1x10^8$, $3x10^8$, $1x10^9$, $3x10^9$, $1x10^{10}$ or $3x10^{10}$ $TCID_{50}$. A maximum tolerated dose was not reached and the treatment appears to have been well tolerated by the patients.

On July 18, 2006, we reported that we had received a letter of approval from the MHRA for our Clinical Trial Application to begin a Phase II clinical trial to evaluate the anti-tumour effects of intratumoural administration of REOLYSIN® in combination with low-dose radiation in patients with advanced cancers.

The trial is an open-label, single-arm, multi-centre Phase II study of REOLYSIN® delivered via intratumoural injection to patients during treatment with low-dose radiotherapy. Up to 40 evaluable patients, including approximately 20 patients with head and neck and esophageal cancers, and approximately 20 patients with other advanced cancers, will be treated with two intratumoural doses of REOLYSIN® at $1x10^{10}$ $TCID_{50}$ with a constant localized radiation dose of 20 Gy in five consecutive daily fractions. Eligible patients include those who have been diagnosed with advanced or metastatic cancers including head, neck and esophageal tumours that are refractory (have not responded) to standard therapy or for which no curative standard therapy exists.

The primary objective of this trial is to assess the anti-tumour activity of the combination of REOLYSIN ® and low dose radiotherapy in treated and untreated lesions. Secondary objectives include the evaluation of viral replication, immune response to the virus and to determine the safety and tolerability of intratumoural administration of REOLYSIN® in patients with advanced cancers who are receiving radiation treatment.

On July 11, 2006, we began patient enrolment in our clinical trial to investigate the use of REOLYSIN ® for patients with recurrent malignant gliomas in the U.S. This clinical trial is an open-label dose escalation Phase I/II trial in which a single dose of REOLYSIN® is 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® is 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 anti-tumour activity.

On July 10, 2006, we commenced patient enrolment in our Phase Ib U.K. clinical trial investigating REOLYSIN ® in combination with radiation therapy as a treatment for patients with advanced cancers. The Phase Ib trial will treat patients with a range of two to six intratumoural doses of REOLYSIN® at $1x10^{10}$ $TCID_{50}$ with a constant radiation dose of 36 Gy in 12 fractions.

The primary objective of the Phase Ib trial 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. Eligible patients include those 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. An additional group of patients is planned to be treated at the maximum dose regimen reached in the Ib trial.

On June 20, 2006, we reported that we had completed patient enrolment in our Phase Ia U.K. clinical trial investigating the use of REOLYSIN ® in combination with radiation to treat patients with advanced cancers. A total of 11 patients were treated in the Phase Ia trial with two intratumoural treatments of REOLYSIN ® at dosages of $1x10^8$, $1x10^9$, or $1x10^{10}$ $TCID_{50}$ with a constant localized radiation dose of 20 Gy in five fractions. A maximum tolerated dose was not reached and the combination treatment appears to have been well tolerated by the patients.

On June 5, 2006, positive interim and final results for two Phase I clinical trials were reported at poster sessions at the American Society of Clinical Oncology ("ASCO") Annual Meeting in Atlanta, Georgia. The data covered interim results of our Phase I systemic administration trial being conducted in the U.K. and final results of our Phase I recurrent malignant glioma trial conducted in Canada.

Interim results of our UK Phase I systemic administration clinical trial investigating the use of REOLYSIN ® to treat patients with advanced cancers indicated that REOLYSIN® can be delivered systemically to various tumour types and cause virus-mediated tumour responses. A total of 30 patients had been treated in the escalating frequency and dosage portion of the trial to a maximum daily dose of $1x10^{11}$ $TCID_{50}$. A maximum tolerated dose was not reached and the treatment appears to have been well tolerated by the patients. Toxicities possibly related to the REOLYSIN® treatment in this trial were generally mild (grade 1 or 2) and included chills, fever, headache, cough, runny nose, sore throat and fatigue. Transient grade 3 toxicities included lymphopenia, neutropenia and troponin I. These symptoms were more frequently observed from day two of treatment and usually lasted less than six hours.

Of the cohorts whose patients had completed treatment (seven), anti-tumour activity was noted in patients with colorectal, prostate, pancreatic, bladder, and lung cancer. Patients were assessed with CTR scans, and where possible tumour marker assessment, and histopathology of tumour biopsies. Two patients with colorectal cancer had tumour stabilization (one for three months, the other classified as stable disease at six months) and had CEA tumour marker reduction of 27% and 60% respectively. One patient with metastatic prostate cancer had stable disease at four months, had a 50% decrease in PSA, and had extensive product-induced necrosis with associated intratumoural viral replication in metastatic lesions in the lymph nodes. One patient with metastatic bladder cancer had stable disease at four months and had a minor tumour response in a metastatic lesion in a lymph node (reduction from 2.5 to 1.9 cm). A patient with pancreatic cancer and a patient with lung cancer had stable disease at four months.

As well, final results of our Canadian Phase I trial for recurrent malignant glioma indicated that intratumoural administration of REOLYSIN ® was well tolerated by the patients and a maximum tolerated dose was not reached. A total of 12 patients were treated with a single, intratumoural injection of REOLYSIN® at dosages of $1x10^7$, $1x10^8$, and $1x10^9$ $TCID_{50}$ in a delivery volume of 0.9 ml.

Toxicities possibly related to the REOLYSIN ® treatment in this trial were generally mild (grade 1 and 2) and included fever, headache and neutropenia. A transient grade 3 elevation in GGT was noted. Three patients lived longer than one year and one of these patients was still alive approximately 45 months post-treatment.

On April 4, 2006, we reported interim results of our Phase I combination REOLYSIN ®/radiation clinical trial. The interim results indicated that the combination of intratumoural REOLYSIN® and radiation was well tolerated and that both local clinical responses and early indications of systemic effects were observed. Preliminary observations in the first seven patients showed that the combination of intratumoural REOLYSIN ® and radiation have been well-tolerated. Most toxicities have been mild, generally grade 1 and 2, and include fever, sweating and skin erythema. One patient in the second cohort developed grade 3 fatigue and grade 2 flu-like symptoms and could not receive the second REOLYSIN®

injection. There has been no evidence that the REOLYSIN ® injections exacerbated the acute reactions expected from the radiation. There was also no evidence of viral shedding in the blood, urine, stool or sputum on day eight post-REOLYSIN ® injection. Interim analysis also showed evidence of local responses and an indication of systemic effects. Amongst the first five patients that completed treatment, three patients had partial tumour responses. At the time of these interim results, there was one case of progressive disease at one month, one case of stable disease at one month, two cases of partial responses at one, two and three months and one case of stable disease at one and two months, which became a pathological partial response at three months. CT scans from the treated lymph node tumour in the first patient in the trial clearly show the partial response, which as of date of the interim results, had lasted for over eight months. A metastatic tumour in this patient that was outside the radiation field also showed a partial response.

On January 18, 2006, we reported that the Cancer Therapy Evaluation Program ("CTEP"), part of the U.S. NCI, had issued a solicitation for Letters of Intent with respect to the conduct of two human clinical trials using REOLYSIN ®. The first trial is a Phase II study of REOLYSIN ® administered systemically in patients with melanoma and the second is a Phase I/II study of REOLYSIN ® co-administered both systemically and intraperitoneally in patients with ovarian cancer. The NCI initially approved REOLYSIN ® for collaborative development after an analysis of preclinical, GLP toxicology and clinical data.

On January 17, 2006, we reported that the six-month follow up period had concluded for patients in our Phase I Canadian recurrent malignant glioma clinical trial. As reported in October 2005, intratumoural administration of reovirus was well tolerated by the patients and a maximum tolerated dose was not reached. 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. A total of 12 patients were treated in the study at dosages of 10^7, 10^8, and 10^9 $TCID_{50}$ in a delivery volume of 0.9 ml.

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 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 $TCID_{50}$. 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 were monitored and evaluated for safety for a period of six months.

On April 7, 2005, we announced that we received clearance from the US 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® was 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 was to determine the MTD, DLT and safety profile of REOLYSIN ®. Secondary objectives included 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, was expected to be up to 36 evaluable patients and depended in part upon the number of cohorts tested.

On February 28, 2005, we announced that we had received clearance from the US 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 ® is 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 ® is 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. 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 30 evaluable patients and will depend upon the number of dose levels tested. Up to an additional 15 patients are expected to 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 MHRA 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 MTD, 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 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.

Manufacturing

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

Financings and Other Distributions

Since inception we have raised net cash proceeds of $84,139,357 through public offerings, private placements and the exercise of warrants and options.

Shareholdings in Other Issuers

During 2006, we sold no common shares of BCY LifeSciences Inc. (2005 – 120,000; 2004 – 697,945) receiving no cash proceeds (2005 – $7,965; 2004 – $133,609) with no reported gain on sale of shares in 2006 (2005 – $765; 2004 – $34,185). As at December 31, 2006, our remaining ownership in BCY LifeSciences Inc. was 80,000 common shares.

Publications and Presentations

During 2006, in conjunction with our various collaborators, we reported the results of a number of research collaborations. A poster at the British Society of Gene Therapy 3rd annual conference in London U.K was presented. Our investigator concluded that immune interventions which prolong local viral replication, and/or enhance levels of tumour specific T cells, should have significant therapeutic impacts both against the local, injected tumour and against systemic metastatic disease not accessible to direct viral injection.

As well, a poster by Dr. E. Anders Kolb was presented at the AACR annual meeting in Washington D.C. The investigators tested reovirus against various pediatric sarcoma cell lines in vitro and in vivo. In all tumour lines evaluated, the reovirus exhibited significant antitumour activity. The investigators concluded that REOLYSIN® demonstrates excellent anti-tumor activity in vitro and in vivo in childhood sarcoma cell lines, and that these promising results suggest that a clinical trial of systemic reovirus in pediatric solid tumours is warranted.

Finally, in the fourth quarter of 2006, Dr. Shizuko Sei of SAIC-Frederick, Inc., prime contractor to the U.S. NCI at Frederick presented a poster at the 18th EORTC-NCI-AACR symposium on Molecular Targets and Cancer Therapeutics. The research focused on work conducted by the NCI with reovirus in combination with a number of common chemotherapeutic agents. In general, the combination of reovirus with cisplatin, gemcitabine, mitomycin or vinblastine was synergistic against lung cancer cell lines sensitive to anti-cancer drugs. Of particular interest to the researchers, the combination of reovirus and paclitaxel was uniformly synergistic in all six cell lines examined, including in those with high-level resistance to paclitaxel or reovirus. The data suggest that the combination of reovirus and paclitaxel may help in promoting cell-death signaling, resulting in a more efficient and synergistic anti-cancer effect against these cell lines than using each agent on its own.

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.

Patents

We secured four U.S. patents and two Canadian patents in 2006. These patents enhance and expand intellectual property coverage in several areas, including manufacturing, methods of identifying patients who may respond well to reovirus treatment, using additional molecular mechanisms that can lead to reovirus susceptibility in cancer cells, and manipulation of the immune system that may enhance the effectiveness of REOLYSIN® treatment. Currently, our patent portfolio includes 18 U.S. patents, five Canadian patents and three European patents. 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

U.K. REOLYSIN® in Combination with Docetaxel

On January 3, 2007, we received a letter of approval from the U.K. MHRA for our CTA to begin a clinical trial using intravenous administration of REOLYSIN® in combination with docetaxel (Taxotere ®) in patients with advanced cancers including bladder, prostate, lung and upper gastro-intestinal. The principal investigator is Professor Hardev Pandha of The Royal Surrey Hospital, U.K. Docetaxel is used in patients with lung, breast and prostate cancers, and is also used widely in the treatment of many other types of cancers.

The trial has two components. The first is an open-label, dose-escalating, non-randomized study of REOLYSIN ® given intravenously with docetaxel every three weeks. A standard dosage of docetaxel will be delivered with escalating dosages of REOLYSIN ® intravenously. A maximum of three cohorts will be enrolled in the REOLYSIN ® dose escalation portion. The second component of the trial will immediately follow and will include the enrolment of a further 12 patients at the maximum dosage of REOLYSIN ® in combination with a standard dosage of docetaxel.

Eligible patients include those who have been diagnosed with advanced or metastatic solid tumours such as bladder, lung, prostate or upper gastro-intestinal cancers that are refractory to standard therapy or for which no curative standard therapy exists. The primary objective of the trial is to determine the MTD, DLT, recommended dose and dosing schedule and safety profile of REOLYSIN ® when administered in combination with docetaxel. Secondary objectives include the evaluation of immune response to the drug combination, the body's response to the drug combination compared to chemotherapy alone and any evidence of anti-tumour activity.

U.K. REOLYSIN® in Combination with Gemcitabine

On January 3, 2007, we received a letter of approval from the U.K. MHRA for our CTA to begin a clinical trial using intravenous administration of REOLYSIN® in combination with gemcitabine (Gemzar®) in patients with advanced cancers including pancreatic, lung and ovarian. The principal investigators are Dr. Johann de Bono of The Royal Marsden NHS Foundation Trust and The Institute of Cancer Research, London and Professor Jeff Evans of the University of Glasgow and the Beatson Oncology Centre in Glasgow, Scotland. Gemcitabine is used in patients with lung, pancreatic and ovarian cancers and is also used widely in the treatment of many other types of cancers.

This trial has two components. The first is an open-label, dose-escalating, non-randomized study of REOLYSIN ® given intravenously with gemcitabine every three weeks. A standard dosage of gemcitabine will be delivered with escalating dosages of REOLYSIN® intravenously. A maximum of three cohorts will be enrolled in the REOLYSIN® dose escalation portion. The second component of the trial will immediately follow and will include the enrolment of a further 12 patients at the maximum dosage of REOLYSIN® in combination with a standard dosage of gemcitabine.

Eligible patients include those who have been diagnosed with advanced or metastatic solid tumours including pancreatic, lung and ovarian cancers that are refractory to standard therapy or for which no curative standard therapy exists. The primary objective of the trial is to determine the MTD, DLT, recommended dose and dosing schedule and safety profile of REOLYSIN ® when administered in combination with gemcitabine. Secondary objectives include the evaluation of immune response to the drug combination, the body's response to the drug combination compared to chemotherapy alone and any evidence of anti-tumour activity.

Financing Activity

On February 22, 2007, we issued 4,000,000 units at a price of $3.00 per unit for net proceeds of approximately $10,590,000. Each whole common share purchase warrant shall entitle the holder thereof to acquire one common share upon payment of $3.50 expiring on February 22, 2010. As well, we granted an over-allotment option of 600,000 units which can be exercised, in whole or in part, prior to March 24, 2007 for additional cash proceeds of $1,800,000. The net proceeds from this offering will be used for our clinical trial program, manufacturing activities in support of the clinical trial program and for general corporate purposes.

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 2007 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 FDA in the United States, the HPB in Canada, or MHRA in the UK as well as those factors detailed in our regulatory filings.

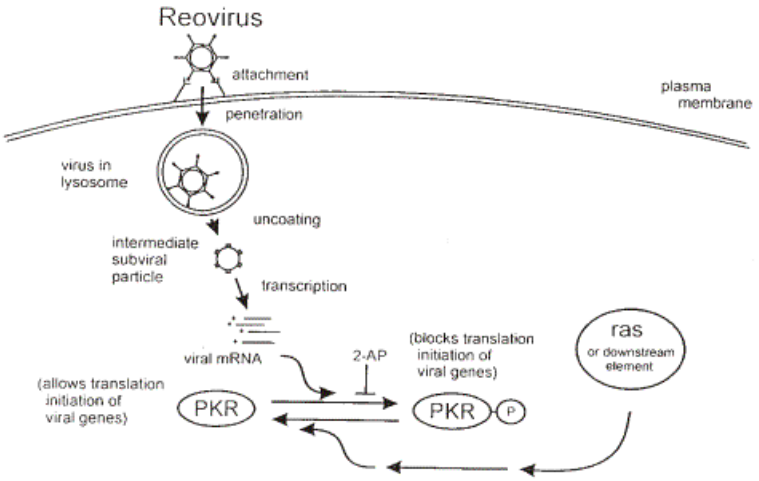
NARRATIVE DESCRIPTION OF THE BUSINESS

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 30% of all human tumours directly, but considering its central role in signal transduction, activation of the Ras pathway has been shown to play a role in approximately two-thirds of all tumours.

The functionality of the product is based upon the finding that tumours bearing an activated Ras pathway are deficient in their ability to activate the anti-viral response mediated by the host cellular protein, PKR. Since PKR is responsible for preventing reovirus replication, tumour cells lacking the activity of PKR are susceptible to reovirus infections. As normal cells do not possess Ras activations, these cells are able to thwart reovirus infections by the activity of PKR. In a tumour cell with an activated Ras pathway, reovirus is able to freely replicate and hence kill the host tumour cell. The result of this replication is progeny viruses that are then free to infect surrounding cancer cells. This cycle of infection, replication and cell death is believed to be repeated until there are no longer any tumour cells carrying an activated Ras pathway available.

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



Scientific Background

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

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

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

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

The Potential Cancer Product

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

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

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 current Good Manufacturing Practices and submit marketing materials before being allowed to market pharmaceutical products. While we plan to pursue or support the pursuit of the approval of our product, success in acquiring regulatory approval for any product is not assured.

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

Pre-Pharmacological Studies - Pre-Pharmacological studies involve extensive testing on laboratory animals to determine if a potential therapeutic product has utility in an *in vivo* disease model and has any adverse toxicology in a disease model.

Investigational New Drug Application - An Investigational New Drug ("IND") Submission, or the equivalent, must be submitted to the appropriate regulatory authority prior to conducting Pharmacological Studies.

Pharmacological Studies (or Phase I Clinical Trials) - Pharmacological studies are designed to assess the potential harmful or other side effects that an individual receiving the therapeutic compound may experience. These studies, usually short in duration, are often conducted with healthy volunteers or actual patients and use up to the maximum expected therapeutic dose.

Therapeutic Studies (or Phase II and III Clinical Trials) - Therapeutic studies are designed primarily to determine the appropriate manner for administering a drug to produce a preventive action or a significant beneficial effect against a disease. These studies are conducted using actual patients with the condition that the therapeutic is designed to remedy.

Prior to initiating these studies, the organization sponsoring the program is required to satisfy a number of requirements via the submission of documentation to support the approval for a clinical trial.

New Drug Submission - After all three phases of a clinical trial have been completed, the results are submitted with the original IND Submission to the appropriate regulatory authority for marketing approval. Once marketing approval is granted, the product is approved for commercial sales.

Market and Competition

According to estimates for 2006 from the American Cancer Society, 1.4 million Americans are expected to be diagnosed with cancer in the year, and 565,000 Americans are forecast to die of cancer. In the United States cancer accounts for 25% of all deaths, second only to heart disease. In the United States, the relative lifetime risk of a male developing cancer is 1 in 2, while for women, this risk is 1 in 3.

The costs of this disease state are also significant. In the United States, the National Institute of Health estimates that the overall annual costs for cancer treatment are $263.3 billion. Of this figure, $78.2 billion can be attributed to direct patient costs.

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

We 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 at various times in the development process. 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

Our Scientific 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 2006, we had 17 patents issued in the United States, five issued in Canadian and three issued in Europe with additional applications in process. In addition, we have numerous patent issuances in other jurisdictions throughout the world. 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 certain select 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 10, 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 Dr. Matthew C. Coffey	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 June 29, 2005
Canadian patent number 2,374,388 The use of Ribozymes in the Detection of Adventitious Agents	Oncolytics Biotech Inc. Issued:	Dr. Matthew C. Coffey July 12, 2005	Filing date:	March 4, 2002

Title	Ownership	Inventors	Status of Patent	
Canadian patent number 2,428,206 Methods for the Treatment of Cellular Proliferative Disorders	Oncolytics Biotech Inc. Issued:	Dr. Matthew C. Coffey Sept. 27, 2005	Filing date:	Oct 26, 2001
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
U.S. patent number 6,994,858 Reovirus Clearance of Ras-Mediated Neoplastic Cells from Mixed Cellular Compositions	Oncolytics Biotech Inc.	Dr. Don Morris Dr. Bradley G. Thompson Dr. Matthew C. Coffey	Filing date: Issued:	May 3, 2001 Feb. 7, 2006
U.S. patent number 7,014,847 Methods for Preventing Reovirus Recognition for the Treatment of Cellular Proliferative	Oncolytics Biotech Inc.	Dr. Bradley G. Thompson Dr. Matthew C. Coffey	Filing date: Issued:	Mar. 28, 2003 Mar. 21, 2006
U.S. patent number 7,049,127 Method of Producing Infectious Reovirus	Oncolytics Biotech Inc.	Dr. Bradley G. Thompson Dr. Matthew C. Coffey	Filing date: Issued:	Dec. 11, 2003 May 23, 2006
U.S. patent number 7,052,832 Methods for the Treatment of Cellular Proliferative Disorders	Oncolytics Biotech Inc.	Dr. Matthew C. Coffey	Filing date: Issued:	Nov. 6, 2001 May 30, 2006
U.S. patent number 7,163,678 Reovirus for the Treatment of Ral-Mediated Cellular Proliferative Disorders	Oncolytics Biotech Inc.	Dr. Patrick W.K. Lee Dr. Kara L. Norman	Filing date: Issued:	Nov. 6, 2003 Jan. 16, 2007
Canadian patent number 2,415,750 Methods for Preventing Reovirus Recognition for the Treatment of Cellular Proliferative Disorders	Oncolytics Biotech Inc.	Dr. Bradley G. Thompson Dr. Matthew C. Coffey	Filing date: Issued:	July 20, 2001 Mar. 28, 2006
European patent number: 1,498,129 Use of Adenoviruses Mutated in the VA Genes for Cancer Treatment	Oncolytics Biotech Inc.	Dr. Ramon Alemany Dr. Manel M. Cascallo	Filing date: Issued:	Mar. 25, 2003 Nov. 16, 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 Ò. 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, 2006, we had 11 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, 2006, we incurred research and development expenditures of $10,535,689 representing approximately 67.8% 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 ($)	Volume	High (US$)	Low (US$)	Close (US$)	Volume
2006								
January	5.49	4.68	4.90	665,987	4.79	4.12	4.35	1,128,094
February	5.47	4.60	5.20	774,307	4.75	3.98	4.51	879,890
March	6.05	5.20	6.05	849,957	5.25	4.57	5.16	1,527,008
April	6.09	4.53	4.55	1,011,013	5.23	3.94	4.07	1,317,432
May	4.60	3.69	3.72	569,967	4.23	3.22	3.39	944,610
June	4.03	3.18	3.19	582,377	3.65	2.80	2.85	872,172
July	3.40	2.25	2.54	834,167	2.96	2.14	2.26	878,257
August	3.29	2.50	3.20	945,281	2.99	2.20	2.89	739,891
September	3.73	3.01	3.05	610,426	3.38	2.69	2.76	710,165
October	3.09	2.64	2.65	725,084	2.80	2.36	2.36	673,207
November	2.85	2.19	2.23	873,397	2.55	1.91	1.94	1,202,946
December	2.75	2.04	2.39	1,272,395	2.38	1.80	2.09	1,635,947

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, 2006, we have outstanding stock options and common share purchase warrants as set forth in Note 9 and 10 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. [2],[3] *Calgary, Alberta*	Director	President of W.A. Cochrane & Associates, Inc. (a consulting company) since 1989 and Chairman of Resverlogix Corp. (a public biopharmaceutical company) and University Technologies International Inc. (UTI) at the University of Calgary since 2000, and is a director of Sernova 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
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
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

Name and Municipality of Residence	Position with the Corporation	Principal Occupation	Director of the Corporation Since
Fred A. Stewart, Q.C. [1][2], *Calgary, 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
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, the Ontario Institute for Cancer Research, and York University.	April 5, 2004
Karl Mettinger, M.D., Ph.D *Berkeley, CA*	Chief Medical Officer	Dr. Mettinger has been involved in clinical and regulatory affairs with various pharmaceutical companies since 1985. Prior to joining Oncolytics, he was Senior Vice President and Chief Medical Officer with SuperGen Inc. Prior to that, he was Executive Director, Clinical Research at IVAX/Baker Norton, the new drug subsidiary of IVAX Corporation. He began his career in the industry as a Medical Director with KABI in Sweden. Dr. Mettinger holds an MD from the University of Lund in Sweden and a PhD (hematology/stroke) from the Karolinska Institute/Karolinska Hospital in Stockholm, Sweden, where he was a physician and an Associate Professor. He has overseen the global development and approval of a number of products including several in oncology.	N/A
Jim Dinning [1] *Calgary, Alberta*	Director	Chair of Western Financial Group since September 2004. Mr. Dinning was Executive Vice President of TransAlta Corporation (power generation and wholesale marketing company) from 1997 to 2004 and served as Member of the Legislative Assembly of the Province of Alberta from 1986 to 1997. Mr. Dinning is a director of Finning International Inc. and Shaw Communications Inc as well as other public and private companies.	March 24, 2004

Name and Municipality of Residence	Position with the Corporation	Principal Occupation	Director of the Corporation Since
Ger van Amersfoort,[2] *Oakville, Ont*	Director	President and Chief Executive Officer of Novartis Canada, a pharmaceutical company with in excess of $1 billion in annual sales and a workforce of 1,500, until his retirement in 2001. Before joining Novartis, he was President and Chief Executive Officer of the U.K. SmithKline Beecham operations from 1997 until managing the merger with Novartis in 1999. From 1990 to 1997, Mr. van Amersfoort headed up SmithKline Beecham operations in Canada as President and Chief Executive Officer. Prior to that, he held managing director positions with Beecham and The Boots Company, and sales positions with Bristol Myers in Holland. He is a recipient of the Paul Harris Medal and the Commemorative Medal of the Queen for outstanding services to the community. He has served on the Board of the Pharmaceutical Manufacturers Association of Canada (now Rx and D) for more than nine years, serving as chairman in 1996.	June 15, 2006
Ed Levy, Ph.D, [3] *Lund, BC*	Director	Adjunct professor at the W. Maurice Young Centre for Applied Ethics at the University of British Columbia since retiring from QLT Inc. in late 2002. From 1988 to 2002, Dr. Levy was with Vancouver-based biotechnology company QLT Inc., most recently as Senior Vice President from 1998. In these roles, he was primarily responsible for negotiating and managing QLT's strategic alliances, led strategic planning and oversaw the company's intellectual property. Dr. Levy served on the board of BIOTECanada from 1999-2002, and he has served on the boards of several technology companies and not-for-profits. Dr. Levy holds a PhD in the History and Philosophy of Science from Indiana University and taught philosophy of science at UBC from 1967-1988.	May 17, 2006
Mary Ann Dillahunty, *Half Moon Bay, CA*	Vice President, Intellectual Property	Ms. Dillahunty was a principal in the law firm of Fish & Richardson, a leading intellectual property firm in the U.S. In 1992, she joined the law firm of Burns, Doane, Swecker & Mathis (now part of Buchanan Ingersoll & Rooney), and subsequently became a partner in the firm. During 1996-1997, Ms. Dillahunty held the position of patent counsel to the Implant Division of ALZA Corporation. Before joining Burns Doane, she was a patent agent and law clerk with the law firm of Heller, Ehrman, White & McAuliffe. Prior to focusing her career on patent law, Ms. Dillahunty held numerous positions in the biotechnology, pharmaceutical and medical device industries, including responsibilities in regulatory affairs and research science. Ms. Dillahunty holds a B.S. in Microbiology from Michigan State University, an MBA from George Washington University, and a JD degree from Stanford Law School.	N/A

Notes:

(1) These persons are members of the Audit Committee. Mr. Stewart is the Chair of the Audit Committee.

(2) These persons are members of the Compensation Committee. Mr. Stewart is the Chair of the Compensation Committee.

(3) These persons are members of the Corporate Governance and Nominating Committee. Mr. Lievonen is the Chair of the Corporate Governance and Nominating Committee.

As at the date hereof, the directors and senior officers as a group beneficially owned, directly or indirectly, 672,201 of our common shares, representing 1.7% 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 14, 2006.

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 Laws (Toronto) and practised corporate and commercial law for over 20 years, receiving his Queen's Counsel designation in 1980. Mr. Stewart served as a Member of Cabinet in the Government of Alberta. In addition, 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 Chair 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 chair/member for other publicly traded companies and as Provincial Treasurer 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 we conducted will result in REOLYSIN® or any other products becoming commercially viable products, and in the event that any product or products result from the research and development program, it is unlikely they will be commercially available for a number of years.

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

There are inherent risks in pharmaceutical research and development.

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

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

- other factors may become apparent during the course of research, up-scaling or manufacturing which may result in the discontinuation of research and other critical projects.

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

Pharmaceutical products are subject to intense regulatory approval processes.

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

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

In addition to our own pharmaceuticals, we may supply active pharmaceutical ingredients and advanced pharmaceutical intermediates for use in our customers' drug products. The final drug products in which the pharmaceutical ingredients and advanced pharmaceutical intermediates are used, however, are subject to regulation for safety and efficacy by the FDA and 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 may be maintained in secrecy until at least 18 months after filing of the original priority application, and since publication of discoveries in the scientific or patent literature tends to lag behind actual discoveries by several months, we cannot be certain that we or any licensor were the first to create inventions claimed by pending patent applications or that we or the licensor were the first to file patent applications for such inventions. Loss of patent protection could lead to generic competition for these products, and others in the future, which would materially and adversely affect our financial prospects for these products.

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

Accordingly, we may not be able to obtain and enforce effective patents to protect our proprietary rights from use by competitors, 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.

Use of our product during current clinical trials may entail risk of product liability. We maintain clinical trial liability insurance; however, it is possible this coverage may not provide full protection against all risks. Given the scope and complexity of the clinical development process, the uncertainty of product liability litigation, and the shrinking capacity of insurance underwriters, it is not possible at this time to assess the adequacy of current clinical trial coverage, nor the ability to secure continuing coverage at the same level and at reasonable cost in the foreseeable future. While we carry, and intend to continue carrying amounts believed to be appropriate under the circumstances, it is not possible at this time to determine the adequacy of such coverage.

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

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

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

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

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

Our technologies may become obsolete.

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

commitments. Our failure to develop new technologies and products and the obsolescence of existing technologies could adversely affect our business.

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

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

We rely upon third party relationships for assistance in the conduct of research efforts, pre-clinical development and clinical trials, and manufacturing. In addition, we expect to rely on third parties to seek regulatory approvals for and to market our product. Although we believe that our collaborative partners will have an economic motivation to commercialize our product included in any collaborative agreement, the amount and timing of resources diverted to these activities generally is expected to be controlled by the third party. Furthermore, if we cannot maintain these relationships, our business may suffer.

We have no operating revenues and a history of losses.

To date, we have not generated operating 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, 2006, we had an accumulated deficit of approximately $65 million. We have incurred net losses of approximately $14.3 million, $12.8 million and $13.0 million for the years ended December 31, 2006, 2005, and 2004, respectively. We anticipate that we will continue to incur significant losses during 2007 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, 2006, we had cash and cash equivalents (including short-term investments) of $27.6 million and working capital of approximately $25.7 million. On February 22, 2007, we received gross proceeds of approximately $10,590,000 for the issuance of 4,000,000 units whereby each unit consisted of one common share and one half of one common share purchase warrant (see – "*Recent Developments*"). 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 expensive with increased restrictions. Consequently, there is no assurance that we will continue to be offered this insurance or be able to obtain adequate coverage. The inability to acquire the appropriate insurance coverage may limit our ability to attract and maintain directors and officers as required to conduct our business.

We are dependent on our key employees and collaborators.

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

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, collaborative and consulting expenses in foreign currencies, primarily the U.S. dollar and the Great British pound (“GBP”). Over the past few years 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 principal. As interest rates change the amount of interest income we earn will be directly impacted.

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, 2006, 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, 2006, 2005, and 2004, Ernst & Young LLP received the following fees:

	December 31,		
	2006	**2005**	**2004**
Item	**$**	**$**	**$**
Audit fees	79,900	63,500	60,460
Audit-related fees [(1),(3), (4)]	32,260	20,250	33,354
Tax fees [(2)]	8,214	9,048	22,150
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.
(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, 2006 and under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2006 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.

CEA – Carcinoembryonic antigen – a substance that is sometimes found in an increased amount in the blood of people who have certain cancers, other diseases, or who smoke. It is used as a tumor marker for colorectal cancer.

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. (this also refers to our NCI arrangement)

CT – computed tomography

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.

DLT – Dose-Limiting Toxicity

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 U.S. Food and Drug Administration

GAAP – Generally Accepted Accounting Principles

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.

GGT – Gamma-Glutamyl Transpeptidase - is a liver enzyme. It is involved in the transfer of amino acids across the cellular membrane and in glutathione metabolism. GGT is found in high concentrations in the liver, bile ducts and kidney.

GLP – Good Laboratory Practice

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.

Gy – a measurement of dosage of radiation.

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 ("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.

MHRA - Medicines and Healthcare products Regulatory Agency (U.K.)

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

MTD – Maximum Tolerated Dose

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.

PSA – Prostate Specific Antigen is a protein produced by the cells of the prostate gland.

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.

$TCID_{50}$ – 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, 2006 and 2005

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 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, 2006 and 2005 and the statements of loss and deficit and cash flows for each of the years in the three year period ended December 31, 2006 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, 2006 and 2005 and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2006 and the cumulative period from inception on April 2, 1998 in accordance with Canadian generally accepted accounting principles.

Calgary, Canada
February 23, 2006

Ernst & Young LLP
Chartered Accountants

Oncolytics Biotech Inc.

BALANCE SHEETS

As at December 31

	2006 $	2005 $
ASSETS		
Current		
Cash and cash equivalents	**3,491,511**	3,511,357
Short-term investments	**24,122,237**	36,894,810
Accounts receivable	**84,003**	47,390
Prepaid expenses	**638,540**	540,368
	28,336,291	40,993,925
Property and equipment ***[note 4]***	**149,596**	189,863
Intellectual property ***[note 5]***	**5,079,805**	5,110,538
	33,565,692	46,294,326
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	**2,616,421**	1,692,481
Alberta Heritage Foundation loan ***[note 6]***	**150,000**	150,000
Commitments and contingency ***[notes 7 and 8]***		
Shareholders' equity		
Share capital *[note 9]*		
Authorized: unlimited		
Issued: 36,520,748 (2005 – 36,236,748)	**83,083,271**	82,841,871
Warrants *[note 9]*	**4,216,740**	4,429,932
Contributed surplus *[notes 2, 10 and 11]*	**8,529,326**	7,912,584
Deficit	**(65,030,066)**	(50,732,542)
	30,799,271	44,451,845
	33,565,692	46,294,326

See accompanying notes

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

Oncolytics Biotech Inc.

STATEMENTS OF LOSS AND DEFICIT

For the periods ended December 31

	2006 $	2005 $	2004 $	Cumulative from inception on April 2, 1998 to December 31, 2006 $
Revenue				
Rights revenue	**—**	—	—	310,000
	—	**—**	**—**	310,000
Expenses				
Research and development *[note 8]*	**10,535,689**	9,308,977	7,107,998	43,371,194
Operating	**3,630,144**	3,083,372	2,803,669	16,770,581
Stock based compensation *[note 10]*	**403,550**	64,104	2,668,570	4,165,649
Foreign exchange loss	**35,270**	253,608	358,068	648,848
Amortization – intellectual property	**874,043**	786,459	686,717	4,036,834
Amortization – capital assets	**52,637**	69,532	65,039	407,683
	15,531,333	13,566,052	13,690,061	69,400,789
	15,531,333	13,566,052	13,690,061	69,090,789
Interest income	**(1,233,809)**	(783,456)	(699,757)	(4,803,005)
Gain on sale of BCY LifeSciences Inc. *[note 18]*	**—**	(765)	(34,185)	(299,403)
Loss on sale of Transition Therapeutics Inc.	**—**	—	—	2,156,685
Loss before taxes	**14,297,524**	12,781,831	12,956,119	66,145,066
Future income tax recovery *[note 13]*	**—**	—	—	(1,115,000)
Net loss for the year	**14,297,524**	12,781,831	12,956,119	65,030,066
Deficit, beginning of year	**50,732,542**	37,950,711	24,994,592	**—**
Deficit, end of year	**65,030,066**	50,732,542	37,950,711	65,030,066
Basic and diluted loss per share *[note 12]*	**(0.39)**	(0.39)	(0.45)	

See accompanying notes

Oncolytics Biotech Inc.

STATEMENTS OF CASH FLOWS

For the periods ended December 31

	2006 $	2005 $	2004 $	Cumulative from inception on April 2, 1998 to December 31, 2006 $
OPERATING ACTIVITIES				
Net loss for the year	**(14,297,524)**	(12,781,831)	(12,956,119)	(65,030,066)
Deduct non-cash items				
Amortization – intellectual property	**874,043**	786,459	686,717	4,036,834
Amortization – capital assets	**52,637**	69,532	65,039	407,683
Stock based compensation *[note 10]*	**403,550**	64,104	2,668,570	4,165,649
Other non-cash items *[note 17]*	**—**	224,508	379,895	1,383,537
Net changes in non-cash working capital *[note17]*	**811,922**	584,766	(69,065)	1,904,921
Cash used in operating activities	**(12,155,372)**	(11,052,462)	(9,224,963)	(53,131,442)
INVESTING ACTIVITIES				
Intellectual property	**(842,610)**	(1,033,035)	(958,809)	(5,499,280)
Capital assets	**(35,837)**	(61,309)	(15,230)	(623,348)
Purchase of short-term investments	**(1,035,427)**	(22,195,253)	(6,777,179)	(48,119,467)
Redemption of short-term investments	**13,808,000**	6,656,746	3,114,000	23,578,746
Investment in BCY LifeSciences Inc.	**—**	7,965	133,609	464,602
Investment in Transition Therapeutics Inc.	**—**	—	—	2,532,343
Cash used in investing activities	**11,894,126**	(16,624,886)	(4,503,609)	(27,666,404)
FINANCING ACTIVITIES				
Alberta Heritage Foundation loan	**—**	—	3/4	150,000
Proceeds from exercise of stock options and warrants	**241,400**	3,384,787	8,121,296	15,208,468
Proceeds from private placements	**—**	15,395,402	6,223,763	38,137,385
Proceeds from public offerings	**—**	—	9,150,902	30,793,504
Cash provided by financing activities	**241,400**	18,780,189	23,495,961	84,289,357
Increase (decrease) in cash and cash equivalents during the period	**(19,846)**	(8,897,159)	9,767,389	3,491,511
Cash and cash equivalents, beginning of the period	**3,511,357**	12,408,516	2,641,127	—
Cash and cash equivalents, end of the period	**3,491,511**	3,511,357	12,408,516	3,491,511
Cash interest received	**940,100**	993,097	459,757	

See accompanying notes

Oncolytics Biotech Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

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 Company's main project is the development of REOLYSIN®, a product that 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 18]*. 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 ("GAAP"). These policies are, in all material respects, in accordance with United States generally accepted accounting principles except as disclosed in note 19. 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 3.7% (2005 – 2.9%).

Short-term investments

Short-term investments, consisting primarily of bankers' acceptances, treasury bills and bonds, 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

External costs relating to the Company's patents are recorded at cost, net of recoveries. Amortization of intellectual property is on a straight-line basis over the lesser of the patents' legal life or its estimated useful life (currently estimated to be 10 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.

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 determined 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 10). 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. 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:

	2006 $	2005 $	2004 $
Reported net loss	14,297,524	12,781,831	12,956,119
Compensation expense	—	983	4,425
Pro forma net loss	14,297,524	12,782,814	12,960,544
Reported basic and diluted net loss per share	(0.39)	(0.39)	(0.45)
Pro forma basic and diluted net loss per share	(0.39)	(0.39)	(0.45)

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.

Future Changes in Accounting Policy

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 are expected to be classified as held-to-maturity securities.

4. PROPERTY AND EQUIPMENT

	2006		
	Cost	**Accumulated Amortization**	**Net Book Value**
Medical equipment	**30,201**	**11,382**	**18,819**
Office equipment	**32,818**	**19,758**	**13,060**
Office furniture	**97,160**	**55,999**	**41,161**
Computer equipment	**185,955**	**109,399**	**76,556**
Leasehold improvements	**99,830**	**99,830**	**—**
	445,964	**296,368**	**149,596**

	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

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

		2006	
	Cost	**Accumulated Amortization**	**Net Book Value**
Intellectual property	**9,116,637**	**4,036,832**	**5,079,805**

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

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. COMMITMENTS

The Company is committed to payments totaling $650,000 during 2007 for activities related to its clinical trial program and collaborations. As at December 31, 2006, there were no commitments beyond 2007.

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 commencing with the sale of product.

8. 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, 2006, a milestone payment for $1.0 million will be 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.

9. SHARE CAPITAL

Authorized:
Unlimited number of no par value common shares

Issued:	**Shares**		**Warrants**	
	Number	**Amount $**	**Number**	**Amount $**
Balance, December 31, 1998	2,145,300	4	—	—
Issued on exercise of stock options	76,922	77	—	—
	2,222,222	81	—	—
July 29, 1999 share split [(a)]	6,750,000	81	—	—
Issued for cash pursuant to July 30, 1999 private placement (net of share issue costs of $45,000) [(b)]	1,500,000	855,000	—	—
Issued for cash pursuant to August 24, 1999 private placement	1,399,997	1,049,998	—	—
Issued on initial public offering (net of share issue costs of $317,897) [(c)]	4,000,000	3,082,103	—	—
Issued for cash pursuant to exercise of share purchase warrants	20,000	15,000	—	—
Balance, December 31, 1999	13,669,997	5,002,182	—	—
Issued on exercise of stock options and warrants	573,910	501,010	—	—
Issued for cash pursuant to July 17, 2000 private placement [(d)]	244,898	2,998,645	—	—
Issued on public offering (net of share issue costs of $998,900) [(e)]	3,000,000	13,101,100	—	—
Balance, December 31, 2000	17,488,805	21,602,937	—	—
Issued on exercise of stock options and warrants	1,702,590	2,210,016	—	—
Balance, December 31, 2001	19,191,395	23,812,953	—	—
Issued 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)	—	—
Balance, December 31, 2002	22,145,284	30,191,572	550,000	114,286

Issued:	**Shares**		**Warrants**	
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	—	—	(6,700)	(2,827)
Exercise of options	197,500	778,951	—	—
Share issue costs	—	(1,796,758)	—	—
Balance, December 31, 2004	31,915,496	66,640,498	2,855,340	3,347,630
Issued for cash pursuant to December 29, 2005 private placement(m)	3,200,000	14,176,000	1,920,000	2,908,800
Exercise of warrants	771,252	3,417,271	(771,252)	(329,984)
Expired warrants	—	—	(1,219,288)	(1,496,514)
Exercise of options	350,000	297,500	—	—
Share issue costs	—	(1,689,398)	—	—
Balance, December 31, 2005	36,236,748	82,841,871	2,784,800	4,429,932

Issued:	**Shares**		**Warrants**	
Balance, December 31, 2005	36,236,748	82,841,871	2,784,800	4,429,932
Exercise of options	284,000	241,400	—	—
Expired warrants	—	—	(112,800)	(213,192)
Balance, December 31, 2006	**36,520,748**	**83,083,271**	**2,672,000**	**4,216,740**

(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 $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 weighted average assumptions used in the Black Scholes Model with respect to the valuation of warrants and broker warrants issued in those years:

	2006	2005	2004	2003	2002
Risk-free interest rate	—	3.82%	2.82%	3.01%	3.41%
Expected hold period to exercise	—	1.92	1.39	0.76	1.00
Volatility in the price of the Company's shares	—	66%	71%	72%	57%
Dividend yield	—	Zero	Zero	Zero	Zero

The following table summarizes the Company's outstanding warrants as at December 31, 2006:

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)
$5.65	320,000	—	—	—	320,000	2.00
$6.15	1,600,000	—	—	—	1,600,000	2.00
$7.06	112,800	—	—	112,800	—	—
$8.00	752,000	—	—	—	752,000	0.90
	2,784,800	—	—	112,800	2,672,000	1.74

10. 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:

	2006		2005	
	Stock Options	**Weighted Average Share Price $**	**Stock Options**	**Weighted Average Share Price $**
Outstanding at beginning of year	**3,634,550**	**4.66**	3,805,550	4.39
Granted during year	**187,400**	**3.08**	200,000	3.18
Cancelled during year	—	—	(21,000)	—
Exercised during year	**(284,000)**	**0.85**	(350,000)	0.85
Outstanding at end of year	**3,537,950**	**4.88**	3,634,550	4.66
Options exercisable at end of year	**3,355,450**	**4.98**	3,387,050	4.77

The following table summarizes information about the stock options outstanding and exercisable at December 31, 2006:

Range of Exercise Prices	**Number Outstanding**	**Weighted Average Remaining Contractual Life (years)**	**Weighted Average Exercise Price $**	**Number Exercisable**	**Weighted Average Exercise Price $**
$0.75 - $1.00	348,550	2.8	0.85	348,550	0.85
$1.65 - $2.37	368,400	6.9	1.95	348,400	1.95
$2.70 - $3.33	728,750	7.0	3.13	578,750	3.12
$4.00 - $5.00	1,240,750	7.8	4.86	1,228,250	4.86
$6.77 - $9.76	708,500	5.2	8.66	708,500	8.66
$12.15 - $13.50	143,000	3.8	12.63	143,000	12.63
	3,537,950	6.4	4.88	3,355,450	4.98

Options granted vest immediately or annually over one, three or four years at the discretion of the Board. The Company has reserved 3,538,461 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 $403,550 (2005 – $43,886; 2004 – $2,537,088) and $nil (2005 – $20,218; 2004 – $131,482) respectively with an offsetting credit to contributed surplus.

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:

	2006	2005	2004
Risk-free interest rate	**4.08%**	3.27%	2.83%
Expected hold period to exercise	**3.5 years**	3.5 years	2 years
Volatility in the price of the Company's shares	**63%**	64%	71%
Dividend yield	**Zero**	Zero	Zero
Weighted average fair value of options	**$1.46**	$1.51	$2.26

11. CONTRIBUTED SURPLUS

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

	2006	2005
Balance, beginning of year	**7,912,584**	6,351,966
Expired warrants	**213,192**	1,496,514
Stock based compensation	**403,550**	64,104
Exercise of stock options	—	—
Balance end of year	**8,529,326**	7,912,584

12. 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, 2006 of 36,346,266 (2005 – 32,804,540; 2004 – 29,028,391). 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.

13. 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:

	2006 $	**2005** $	**2004** $
Loss before taxes	**(14,297,524)**	(12,783,356)	(12,956,119)
Statutory Canadian corporate tax rate	**29.00%**	33.60%	33.87%
Anticipated tax recovery	**(4,146,282)**	(4,295,208)	(4,388,238)
Non-taxable portion of net capital loss (gain)	—	(129)	(16,717)
Employee stock based compensation	**117,030**	21,539	903,845
Cancellation of contingent payment obligation settled in common shares	—	—	50,805
Change in tax rate	**2,276,597**	102,309	242,119
Tax return adjustment	**(5,414)**	78,995	(43,509)
Non-deductible expenses	**10,440**	8,113	8,976
Change in valuation allowance (a)	**(1,747,629)**	4,084,381	3,242,719
Future income tax recovery	—	—	—

(a) As of December 31, 2006, the Company has non-capital losses for income tax purposes of approximately $46,246,000 which are available for application against future taxable income and expire in 2007 ($1,033,000), 2008 ($2,898,000), 2009 ($4,483,000), 2010 ($4,483,000), 2014 ($9,075,000), 2015 ($11,550,000) and 2016 ($12,612,000). In addition to the loss carry forward amounts above, the Company has scientific research and development claims and related investment tax credits of approximately $9,325,137 and $2,169,638 respectively as at December 31, 2006 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:

	2006 $	2005 $
Non-capital loss carryforwards	**13,378,880**	11,483,387
Scientific research and development	**2,704,290**	2,745,133
Investment tax credits	**1,540,443**	1,418,083
Net capital loss carryforwards	**244,966**	283,822
Undepreciated capital costs in excess of book value of capital assets and intellectual property	**553,156**	325,377
Share issue costs	**428,965**	772,133
Valuation allowance	**(18,850,700)**	(17,027,935)
Future tax asset	—	—

14. INDEMNIFICATION

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.

15. 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, 2006, 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 earns interest on its fixed rate short-term investments of 4.0% (2005 – 2.9%; 2004 – 2.3%) and is therefore exposed to interest rate risk from fluctuations in short-term interest rates.

Foreign exchange risk

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

16. 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.

17. ADDITIONAL CASH FLOW DISCLOSURE

Net Change In Non-Cash Working Capital

	2006 $	2005 $	2004 $	Cumulative from inception on April 2, 1998 to December 31, 2006 $
Change in:				
Accounts receivable	**(36,613)**	377	16,457	(84,003)
Prepaid expenses	**(98,172)**	(290,003)	(93,528)	(638,540)
Accounts payable and accrued liabilities	**923,940**	743,223	64,330	2,616,421
Change in non-cash working capital	**789,155**	453,597	(12,741)	1,893,878
Net change associated with investing activities	**22,767**	131,169	(56,324)	11,043
Net change associated with operating activities	**811,922**	584,766	(69,065)	1,904,921

Other Non-Cash Items

	2006 $	2005 $	2004 $	Cumulative from inception on April 2, 1998 to December 31, 2006 $
Foreign exchange loss	**—**	159,204	264,080	425,186
Donation of medical equipment *[note 4]*	**—**	66,069	**—**	66,069
Loss on sale of Transition Therapeutics Inc.	**—**	—	—	2,156,685
Gain on sale of BCY LifeSciences Inc.	**—**	(765)	(34,185)	(299,403)
Cancellation of contingent payment obligation settled in common shares *[note 8]*	**—**	—	150,000	150,000
Future income tax recovery	**—**	—	—	(1,115,000)
	—	224,508	379,895	1,383,537

18. BCY LIFESCIENCES INC.

On May 7, 2002, the shareholders of SYNSORB and the Company approved an arrangement whereby the Company would release from escrow 4,000,000 common shares held by SYNSORB. As consideration, SYNSORB provided the Company with 1,500,000 common shares of BCY LifeSciences 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. On April 23, 2002, the Company acquired 694,445 common shares of BCY, a public company, for $0.18 per share, and warrants exercisable until April 23, 2004 to purchase up to 694,445 common shares in BCY at an exercise price of $0.27 per share for total consideration of $127,123 (including costs of $2,123). After these transactions, the Company held a total of 2,394,445 BCY shares.

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, 2006, the Company's remaining ownership in BCY was 80,000 common shares with a book value $4,800 and has been classified as a short term investment. The warrants expired out of the money.

19. RECONCILIATION OF CANADIAN GAAP TO U.S. GAAP

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

		Year Ended December 31			Cumulative from inception on April 2, 1998 to December 31, 2006
	Notes	2006 $	2005 $	2004 $	$
Net loss - Canadian GAAP	(2)	**14,297,524**	12,781,831	12,956,119	65,030,066
Amortization of intellectual property	(1)	**(361,500)**	(361,500)	(361,500)	(2,711,250)
Future income tax recovery	(1)	—	—	—	1,115,000
Net and comprehensive loss – U.S. GAAP		**13,936,024**	12,420,331	12,594,619	63,433,816
Basic and diluted loss per common share – U.S. GAAP		**(0.38)**	(0.38)	(0.43)	-

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

Balance sheet items in accordance with U.S. GAAP are as follows:

		December 31, 2006		December 31, 2005	
	Notes	Canadian GAAP	U.S. GAAP	Canadian GAAP	U.S. GAAP
Intellectual property	(1)	**5,079,805**	**4,176,055**	5,110,538	3,845,288
Future income taxes	(1)	—	—	—	—
Contributed surplus	(1)	**6,816,793**	**4,316,793**	6,413,243	3,913,243
Deficit	(1)	**65,030,066**	**63,433,816**	50,732,542	49,497,792

1. "Push-Down" Accounting and In Process Research and Development

In process research and development of $2,500,000 recorded as a consequence of SYNSORB's acquisition of the Company's shares comprises intangible assets related to research and development activities. Under U.S. GAAP, this would not be capitalized on acquisition.

As a result of removing the $2,500,000 from intellectual property in 1999 for U.S. GAAP purposes, the amortization of the intellectual property, the future income tax recovery, future income tax liability and contributed surplus amounts recorded for Canadian GAAP purposes have been reversed.

2. Presentation of Stock Based Compensation Expense

Under U.S. GAAP, stock based compensation expense is to be presented within the appropriate category of expenses on the statement of loss. As a result, stock based compensation on the statement of loss would be reduced by $403,550 in 2006 (2005 - $64,104 and 2004 – $2,668,570) and research and development and operating expenses would increase by $131,890 and $271,660, respectively (2005 – $59,974 and $4,130, respectively; and 2004 – $1,460,470 and $1,208,100, respectively). Cumulative from inception stock based compensation would be reduced by $4,165,649 and cumulative from inception research and development and operating expenses would increase by $2,295,929 and $1,869,720, respectively. There is no impact on the Company's net loss.

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 U.S. 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 U.S. 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.

		2006 $	**2005** $	**2004** $
Net Loss	Pro forma – Canadian GAAP	**14,297,524**	12,782,814	12,960,544
	As reported – U.S. GAAP	**13,936,024**	12,420,331	12,594,619
	Pro forma – U.S. GAAP	**13,936,024**	12,421,314	12,599,044
Basic and diluted net loss per common share	Pro forma – Canadian GAAP ($/share)	**(0.39)**	(0.39)	(0.45)
	As reported – U.S. GAAP	**(0.38)**	(0.38)	(0.43)
	Pro forma – U.S. GAAP ($/share)	**(0.38)**	(0.38)	(0.43)

Additional Stock Based Payment Disclosure

As at December 31, 2006, the aggregate intrinsic value of the stock options outstanding and the stock options exercisable were $699,993 and $689,193, respectively. The total intrinsic value of the options exercised in 2006 was $618,960 (2005 – $1,223,400; 2004 – $1,253,014).

A summary of the Company's non-vested shares as of December 31, 2006 and changes during the year ended December 31, 2006 is as follows:

	2006	
	Stock Options	**Weighted Average Grant Date Fair Value $**
Non-vested at beginning of year	**247,500**	**1.36**
Granted during year	**187,400**	**1.46**
Vested during year	**(252,400)**	**1.42**
Forfeited during year	**—**	**—**
Non-vested at end of year	**182,500**	**1.38**

As of December 31, 2006, there was $159,877 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 1.75 years. The total fair value of shares vested during the years ended December 31, 2006, 2005, and 2004 was $129,276, $59,630, and $8,250, respectively.

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

Future Changes in U.S. Accounting Policies

On July 13, 2006, FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109.* Interpretation 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with Statement 109 and prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Additionally, Interpretation 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Interpretation 48 is effective for fiscal years beginning after December 15, 2006, with early adoption permitted. The Company does not expect that the adoption of Interpretation 48 will have a material effect on its financial position, results of operations or cash flows.

In 2006, FASB issued Statement No. 157, *Fair Value Measurements*. This new pronouncement provides guidance for using fair value to measure assets and liabilities. FASB believes the pronouncement also responds to investors' requests for expanded information about the extent to which corporations measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. Statement 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. Statement 157 requires expanded disclosure of the effect on earnings for items measured using unobservable data. The Company does not believe adoption of Statement 157 will have a material effect on its financial position, results of operations or cash flows.

20. COMPARATIVE FIGURES

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

21. SUBSEQUENT EVENT

On February 22, 2007, the Company closed a public offering whereby 4,000,000 units were issued at a price of $3.00 per unit for gross cash proceeds of $12,000,000. Net proceeds are expected to be approximately $10,590,000. Each unit included one common share and one-half of one common share purchase warrant for a total of 2,000,000 warrants. Each whole common share purchase warrant entitles the holder to acquire one common share in the capital of the Company upon payment of $3.50 per share until February 22, 2010.

EXHIBIT 3

March 2, 2007

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

The following information should be read in conjunction with our 2006 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 2007 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 2006

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

Clinical Trial Program

U.K. Phase I Systemic Administration Clinical Trial

During 2006, we completed patient enrollment in our U.K. phase I systemic delivery clinical trial. The primary objective of our U.K. Phase I trial was to determine the maximum tolerated dose ("MTD"), dose limiting toxicity ("DLT"), and safety profile of REOLYSIN ® when administered systemically to patients. A secondary objective was to examine any evidence of anti-tumour activity. Eligible patients included those who had been diagnosed with advanced or metastatic solid tumours that were refractory (have not responded) to standard therapy or for which no curative standard therapy exists.

A total of 33 patients were treated in this clinical trial to a maximum daily dose of $1x10^{11}$ $TCID_{50}$. These 33 patients have received 77 courses of therapy, for a total of 338 daily treatments. Patients were entered into the study at the following dose levels (all $TCID_{50}$): $1x10^8$ for 1 day, $1x10^8$ for 3 days, $1x10^8$, $3x10^8$, $1x10^9$, $3x10^9$, $1x10^{10}$ and $3x10^{10}$ for five days, and $1x10^{11}$ for three days. An MTD was not reached and the treatment appears to have been well tolerated by the patients.

Toxicities possibly related to REOLYSIN ® treatment in this trial were generally mild (grade 1 or 2) and included chills, fever, headache, cough, runny nose, sore throat and fatigue. Transient grade 3 toxicities included lymphopenia, neutropenia and troponin I. These symptoms were more frequently observed from day two of treatment and usually lasted less than six hours.

Of the patients assessed to date (32), anti-tumour activity was noted in seven patients. Patients were assessed with CTR scans, and where possible tumour marker assessment, and histopathology of tumour biopsies. Two patients with colorectal cancer had tumour stabilization (one for three months, the other classified as stable disease for six months) and had CEA tumour marker reduction of 27% and 60% respectively. One patient with metastatic prostate cancer had stable disease for four months, had a 50% decrease in PSA, and had extensive product-induced necrosis with associated intratumoural viral replication in metastatic lesions in the lymph nodes. One patient with metastatic bladder cancer had stable disease for four months and had a minor tumour response in a metastatic lesion in a lymph node (reduction from 2.5 to 1.9 cm). A patient with pancreatic cancer and a patient with lung cancer had stable disease for four months. A patient with endometrial cancer had stable disease for five months.

Phase Ia/Ib Combination REOLYSIN®/Radiation Clinical Trial

In 2006, we completed patient enrollment in our Phase Ia combination REOLYSIN ®/radiation clinical trial. The primary objective of this trial was to determine the MTD, DLT, and safety profile of REOLYSIN ® when administered intratumourally to patients receiving radiation treatment. A secondary objective was to examine any evidence of anti-tumour activity. Eligible patients included those who had been diagnosed

with advanced or metastatic solid tumours that were refractory to standard therapy or for which no curative standard therapy exists.

A total of 11 patients were treated in this Phase Ia trial with two intratumoural treatments of REOLYSIN ® at dosages of $1x10^8$, $1x10^9$, or $1x10^{10}$ $TCID_{50}$ with a constant localized radiation dose of 20 Gy in five fractions. Preliminary results in the first seven patients showed that the combination of intratumoural REOLYSIN ® and radiation was well-tolerated and an MTD had not been reached. Most toxicities were mild, generally grade 1 and 2, and included fever, sweating and skin erythema. One patient in the second cohort developed grade 3 fatigue and grade 2 flu-like symptoms and could not receive the second REOLYSIN® injection. There was no evidence that the REOLYSIN ® injections exacerbated the acute reactions expected from the radiation. There was also no evidence of viral shedding in the blood, urine, stool or sputum on day eight post-REOLYSIN® injection.

Interim analysis also showed evidence of local responses and an indication of systemic effects. Amongst the first five patients that completed treatment, three patients had partial tumour responses. There was one case of progressive disease at one month, one case of stable disease at one month, two cases of partial responses at one, two and three months and one case of stable disease at one and two months, which became a pathological partial response at three months. CT scans from the treated lymph node tumour in the first patient in the trial clearly show the partial response, which at the time of the interim analysis, had lasted for over eight months. A metastatic tumour in this patient that was outside the radiation field also showed a partial response.

Subsequent to completion of the Phase Ia portion of this trial, we commenced patient enrolment in the Phase Ib portion. The Phase Ib trial will treat patients with a range of two to six intratumoural doses of REOLYSIN ® at $1x10^{10}$ $TCID_{50}$ with a constant radiation dose of 36 Gy in 12 fractions.

The primary objective of our Phase Ib trial 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. Eligible patients include those who have been diagnosed with advanced or metastatic solid tumours that are refractory to standard therapy or for which no curative standard therapy exists. An additional group of patients is planned to be treated at the maximum dose regimen reached in this Ib trial.

U.K. Phase II Combination REOLYSIN®/Radiation Clinical Trial

In 2006, we received a letter of approval from the U.K. Medicines and Healthcare products Regulatory Agency ("MHRA") for our Clinical Trial Application ("CTA") to begin a Phase II clinical trial to evaluate the anti-tumour effects of intratumoural administration of REOLYSIN ® in combination with low-dose radiation in patients with advanced cancers. In December 2006, we initiated patient enrollment.

The trial is an open-label, single-arm, multi-centre Phase II study of REOLYSIN ® delivered via intratumoural injection to patients during treatment with low-dose radiotherapy. Up to 40 evaluable patients, including approximately 20 patients with head and neck and esophageal cancers, and approximately 20 patients with other advanced cancers, will be treated with two intratumoural doses of REOLYSIN ® at $1x10^{10}$ $TCID_{50}$ with a constant localized radiation dose of 20 Gy in five consecutive daily fractions. Eligible patients include those who have been diagnosed with advanced or metastatic cancers including head, neck and esophageal tumours that are refractory (have not responded) to standard therapy or for which no curative standard therapy exists.

The primary objective of the trial is to assess the anti-tumour activity of the combination of REOLYSIN ® and low dose radiotherapy in treated and untreated lesions. Secondary objectives include the evaluation of viral replication, immune response to the virus and to determine the safety and tolerability of intratumoural administration of REOLYSIN® in patients with advanced cancers who are receiving radiation treatment.

U.K. REOLYSIN® in Combination with Paclitaxel and Carboplatin

In 2006, we received a letter of approval from the MHRA for our CTA to begin a clinical trial using intravenous administration of REOLYSIN ® in combination with paclitaxel and carboplatin in patients with advanced cancers including melanoma, lung, and ovarian. The combination of paclitaxel and carboplatin chemotherapy is used in cancer patients with ovarian and lung cancers, and is also used widely in the treatment of many other types of cancer.

In studies conducted by the U.S. National Cancer Institute ("NCI"), the combination of REOLYSIN ® and paclitaxel was uniformly synergistic against six non-small cell lung cancer cell lines examined, including cell lines resistant to paclitaxel or REOLYSIN®. Preclinical studies conducted at Cornell University also found that REOLYSIN® in combination with platinum drugs enhanced the cytotoxicity of the chemotherapeutic agents.

This trial has two components. The first is an open-label, dose-escalating, non-randomized study of REOLYSIN ® given intravenously with paclitaxel and carboplatin every three weeks. Standard dosages of paclitaxel and carboplatin will be delivered with escalating dosages of REOLYSIN® intravenously. A maximum of three cohorts will be enrolled in the REOLYSIN ® dose escalation portion. The second component of the trial will immediately follow and will include the enrolment of a further 12 patients at the maximum dosage of REOLYSIN ® in combination with standard dosages of paclitaxel and carboplatin.

Eligible patients include those who have been diagnosed with advanced or metastatic solid tumours such as melanoma, lung and ovarian cancers that are refractory to standard therapy or for which no curative standard therapy exists. The primary objective of the trial is to determine the MTD, DLT, recommended dose and dosing schedule and safety profile of REOLYSIN ® when administered in combination with carboplatin and paclitaxel. Secondary objectives include the evaluation of immune response to the drug combination, the body's response to the drug combination compared to chemotherapy alone and any evidence of anti-tumour activity.

U.S. Phase I Systemic Administration Clinical Trial

In 2006, we completed patient enrolment in our U.S. Phase I U.S. clinical trial investigating the systemic delivery of REOLYSIN ® to treat patients with advanced cancers. A total of 18 patients were treated in the Phase I trial with REOLYSIN ® at escalating dosages of $1x10^8$, $3x10^8$, $1x10^9$, $3x10^9$, $1x10^{10}$ or $3x10^{10}$ $TCID_{50}$. An MTD was not reached and the treatment appears to have been well tolerated by the patients.

The clinical trial was an open-label, dose-escalation Phase I study in which a single dose of REOLYSIN ® was administered intravenously to patients diagnosed with selected advanced or metastatic solid tumours that are refractory 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 anti-tumour activity.

U.S. Phase I/II Recurrent Malignant Glioma Clinical Trial

In 2006, we began patient enrolment in our clinical trial to investigate the use of REOLYSIN ® for patients with recurrent malignant gliomas. This clinical trial is an open-label dose escalation Phase I/II trial in which a single dose of REOLYSIN ® is 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 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 anti-tumour activity.

U.S. National Cancer Institute

In 2006, the NCI commenced its solicitation process for two clinical trial studies, a Phase II study of REOLYSIN® administered systemically in patients with melanoma and 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 MTD of REOLYSIN® given by IP administration in combination with a constant systemic dose and dosing regimen.

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. Throughout 2006, we continued with studies examining the interaction between the immune system and the reovirus, the use of the reovirus as a co-therapy with existing chemotherapeutics and radiation, the use of new RAS active viruses as potential therapeutics, and to investigate new uses for the reovirus in therapy.

During 2006, in conjunction with our various collaborators, we reported the results of a number of research collaborations. One of our collaborators presented a poster at the British Society of Gene Therapy 3rd annual conference in London U.K. Our investigators concluded that immune interventions which prolong local viral replication, and/or enhance levels of tumour specific T cells, should have significant therapeutic impacts both against the local, injected tumour and against systemic metastatic disease not accessible to direct viral injection.

As well, a poster by Dr. E. Anders Kolb was presented at the AACR annual meeting in Washington D.C. The investigators tested reovirus against various pediatric sarcoma cell lines *in vitro* and *in vivo*. In all tumour lines evaluated, the reovirus exhibited significant antitumour activity. The investigators concluded that REOLYSIN® demonstrates excellent anti-tumor activity *in vitro* and *in vivo* in childhood sarcoma cell lines, and that these promising results suggest that a clinical trial of systemic reovirus in pediatric solid tumours is warranted.

In the fourth quarter of 2006, Dr. Shizuko Sei of SAIC-Frederick, Inc., prime contractor to the U.S. National Cancer Institute at Frederick presented a poster at the 18th EORTC-NCI-AACR symposium on Molecular Targets and Cancer Therapeutics in Prague, Czech Republic. The research focused on work conducted by the NCI with reovirus in combination with a number of common chemotherapeutic agents. In general, the combination of reovirus with cisplatin, gemcitabine, mitomycin or vinblastine was synergistic against NSCLC cell lines sensitive to anti-cancer drugs. Of particular interest to the researchers, the combination of reovirus and paclitaxel was uniformly synergistic in all six cell lines examined, including in those with high-level resistance to paclitaxel or reovirus. The data suggest that the combination of reovirus and paclitaxel may help in promoting cell-death signaling, resulting in a more efficient and synergistic anti-cancer effect against these cell lines than using each agent on its own.

Manufacturing and Process Development

At the beginning of 2006, we completed the production runs that were ongoing at the end of 2005, providing us with sufficient product to complete our U.K. Phase II combination REOLYSIN®/radiation clinical trial and our existing Phase I clinical trials. At the same time, our process development activity helped improve virus yields from our manufacturing process. These improvements were transferred to our cGMP manufacturer and we began production runs under this improved process. These production runs are expected to provide sufficient REOLYSIN® to expand our Phase II clinical trial program. Our process development activity has now shifted focus to the examination of the potential scale up of our manufacturing process.

Intellectual Property

During 2006, four U.S. patents and one Canadian patent were issued. At the end of 2006, we exited with a total of 17 U.S., five Canadian and three 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 2006 that our cash usage would average less than $1,200,000 per month for 2006. Our actual cash usage for the year was $13,033,819 with $12,155,372 from operating activities and $878,447 from the purchases of intellectual property and capital assets. Our net loss for the year was $14,297,524 (see *"Results of Operations"*).

Cash Resources

We have used the equity markets to acquire the cash resources required to fund our operations. In 2006, we received cash proceeds of $241,400 from the exercise of options. We exited 2006 with cash resources totaling $27,613,748 (see *"Liquidity and Capital Resources")*.

REOLYSIN® Development For 2007

We believe that we will continue to expand our clinical trials to include other studies investigating REOLYSIN ® in combination with other chemotherapies. As well, we expect to continue to enroll patients in our ongoing clinical trials completing enrollment in our U.K. Phase Ia/Ib and Phase II combination REOLYSIN ®/radiation clinical trials by the end of 2007. We also believe that we will complete enrollment in our approved chemotherapy co-therapy studies in 2008.

We expect to produce REOLYSIN ® in 2007 to supply our clinical trial program. We also plan to complete our scale up studies in an effort to continue to improve our manufacturing process.

We estimate, based on our expected activity in 2006 that our monthly cash usage in 2007 may increase to $1,400,000 per month (see *"Liquidity and Capital Resources"*).

Recent 2007 Progress

U.K. REOLYSIN® in Combination with Docetaxel

On January 3, 2007, we announced that we received a letter of approval from the MHRA for our CTA to begin a clinical trial using intravenous administration of REOLYSIN® in combination with docetaxel (Taxotere ®) in patients with advanced cancers including bladder, prostate, lung and upper gastro-intestinal. The principal investigator is Professor Hardev Pandha of The Royal Surrey Hospital, U.K. Docetaxel is used in patients with lung, breast and prostate cancers, and is also used widely in the treatment of many other types of cancers.

The trial has two components. The first is an open-label, dose-escalating, non-randomized study of REOLYSIN ® given intravenously with docetaxel every three weeks. A standard dosage of docetaxel will be delivered with escalating dosages of REOLYSIN ® intravenously. A maximum of three cohorts will be enrolled in the REOLYSIN ® dose escalation portion. The second component of the trial will immediately follow and will include the enrolment of a further 12 patients at the maximum dosage of REOLYSIN ® in combination with a standard dosage of docetaxel.

Eligible patients include those who have been diagnosed with advanced or metastatic solid tumours such as bladder, lung, prostate or upper gastro-intestinal cancers that are refractory to standard therapy or for which no curative standard therapy exists. The primary objective of the trial is to determine the MTD, DLT, recommended dose and dosing schedule and safety profile of REOLYSIN® when administered in

combination with docetaxel. Secondary objectives include the evaluation of immune response to the drug combination, the body's response to the drug combination compared to chemotherapy alone and any evidence of anti-tumour activity.

U.K. REOLYSIN® in Combination with Gemcitabine

On January 3, 2007, we announced that we had received a letter of approval from the MHRA to begin a clinical trial using intravenous administration of REOLYSIN® in combination with gemcitabine (Gemzar®) in patients with advanced cancers including pancreatic, lung and ovarian. The principal investigators are Dr. Johann de Bono of The Royal Marsden NHS Foundation Trust and The Institute of Cancer Research, London and Professor Jeff Evans of the University of Glasgow and the Beatson Oncology Centre in Glasgow, Scotland. Gemcitabine is used in patients with lung, pancreatic and ovarian cancers and is also used widely in the treatment of many other types of cancers.

This trial has two components. The first is an open-label, dose-escalating, non-randomized study of REOLYSIN® given intravenously with gemcitabine every three weeks. A standard dosage of gemcitabine will be delivered with escalating dosages of REOLYSIN® intravenously. A maximum of three cohorts will be enrolled in the REOLYSIN® dose escalation portion. The second component of the trial will immediately follow and will include the enrolment of a further 12 patients at the maximum dosage of REOLYSIN® in combination with a standard dosage of gemcitabine.

Eligible patients include those who have been diagnosed with advanced or metastatic solid tumours including pancreatic, lung and ovarian cancers that are refractory to standard therapy or for which no curative standard therapy exists. The primary objective of the trial is to determine the MTD, DLT, recommended dose and dosing schedule and safety profile of REOLYSIN® when administered in combination with gemcitabine. Secondary objectives include the evaluation of immune response to the drug combination, the body's response to the drug combination compared to chemotherapy alone and any evidence of anti-tumour activity.

Financing Activity

On February 22, 2007, we issued 4,000,000 units at a price of $3.00 per unit for proceeds of $12,000,000. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant shall entitle the holder thereof to acquire one common share upon payment of $3.50 expiring on February 22, 2010. As well, we granted an over-allotment option of 600,000 units to the underwriter which can be exercised, in whole or in part, prior to March 24, 2007 for additional cash proceeds of $1,800,000. The net proceeds from this offering, estimated to be approximately $10,590,000, will be used for our clinical trial program, manufacturing activities in support of the clinical trial program and for general corporate purposes.

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 six Phase I clinical trials and are presently enrolling or have permission to commence six 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

Financial Instruments

On January 1, 2007, we prospectively adopted 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 we expect our short-term investments to 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 2006, we used the following weighted average assumptions:

	2006
Risk-free interest rate	4.08%
Expected hold period to exercise	3.5 years
Volatility in the price of the our shares	63%
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 5%, resulting in an option value increase of 5% from that calculated from the stated volatility. If we were to use monthly trading prices over the same period, volatility would increase 9%, resulting in an option value increase of 13%. 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 14% 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 $403,550. However, given the above discussion this expense could be increased between 5% - 14% and still be in accordance with GAAP.

Warrant Values

Since inception, we have raised cash through the issue of units and the exercise of warrants and options. Each issued unit 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, 2006, the net book value of our original intellectual property was $583,333. Consequently, without the application of push down accounting the value of our intellectual property and shareholders' equity would be $583,333 lower than presented in the 2006 audited financial statements.

SELECTED ANNUAL INFORMATION

	2006 **$**	**2005** **$**	**2004** **$**
Revenues	—	—	—
Interest income	1,233,809	783,456	699,757
Net loss[2]	14,297,524	12,781,831	12,956,119
Basic and diluted loss per share[2], [3]	0.39	0.39	0.45
Total assets [1], [3]	33,565,692	46,294,326	39,488,641
Total long term financial liabilities [4]	150,000	150,000	150,000
Cash dividends declared per share[5]	Nil	Nil	Nil

Notes:

(1) 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 2006.
(2) Included in net loss and net loss per share is stock based compensation expense of $403,500 (2005 – $64,104; 2004 – $2,668,570).
(3) We issued 284,000 common shares for cash proceeds of $241,400 in 2006 (2005 – 4,321,252 common shares for cash proceeds of $18,780,189; 2004 – 4,685,775 common shares for cash proceeds of $23,495,961). 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 9 to the audited financial statements for 2006).
(4) The long-term debt recorded in 2006, 2005, and 2004 represents repayable loans from the Alberta Heritage Foundation.
(5) We have not declared or paid any dividends since incorporation.

RESULTS OF OPERATIONS

Net loss for the year ended December 31, 2006 was $14,297,524 compared to $12,781,831 and $12,956,119 for 2005 and 2004, respectively.

Research and Development Expenses ("R&D")

	2006 $	2005 $	2004 $
Manufacturing and related process development expenses	**4,508,882**	4,706,203	3,868,883
Clinical trial expenses	**2,726,331**	1,880,059	799,990
Pre-clinical trial expenses and collaborations	**1,127,612**	786,488	824,889
Cancellation of contingent payment obligation	**—**	—	400,000
Quebec scientific research and experimental development refund	**(52,344)**	—	(21,436)
Other R&D expenses	**2,225,208**	1,936,227	1,235,672
Research and development expenses	**10,535,689**	9,308,977	7,107,998

In 2006, R&D expenses were $10,535,689 compared to $9,308,977 and $7,107,998 in 2005 and 2004, 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.

	2006 $	2005 $	2004 $
Product manufacturing expenses	**3,050,647**	4,326,577	2,212,586
Technology transfer expenses	**457,975**	—	656,346
Process development expenses	**1,000,260**	379,626	999,951
Manufacturing and related process development expenses	**4,508,882**	4,706,203	3,868,883

Our M&P expenses for 2006 were $4,508,882 compared to $4,706,203 and $3,868,883 for 2005 and 2004, respectively. In the first part of 2006, we completed the production runs that were ongoing at the end of 2005, providing us with sufficient product to complete our U.K. Phase II combination REOLYSIN®/radiation clinical trial and our existing Phase I clinical trials. At the same time, our process development activity helped improve virus yields from our manufacturing process which we subsequently transferred to our cGMP manufacturer. Once this transfer was completed we began additional production runs in the later part of 2006 that will be used to supply our expanding Phase II and Phase I/II clinical trials. Our process development activity has now shifted focus to the examination of the potential scale up of our manufacturing process.

In 2005, we were focused on the production of REOLYSIN ® that was to be used in our Phase I clinical trials. We entered into multiple cGMP and non-cGMP production runs throughout 2005 with our cGMP manufacturer. 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.

We expect that our M&P expenses in 2007 will decrease compared to 2006. We are expecting to enter into additional production run contracts to ensure a supply of REOLYSIN® and we expect to continue with process development activity that examines the potential scale up of our manufacturing process. We are also examining ways to reduce our economic dependence resulting from having only a single cGMP manufacturer. This might include building up a level of inventory, increasing the scale of each production

run, engaging another cGMP manufacturer or manufacturing REOLYSIN ® ourselves. Depending on how we mitigate our risk of economic dependence our expectation of our 2007 M&P expenses may change.

Clinical Trial Program

Clinical trial expenses include those costs associated with our clinical trial program in the U.S., U.K. 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.

	2006 $	2005 $	2004 $
Direct clinical trial expenses	**2,378,211**	1,683,120	649,405
Other clinical trial expenses	**348,120**	196,939	150,585
Clinical trial expenses	**2,726,331**	1,880,059	799,990

In 2006, we incurred costs directly associated with ongoing clinical trials of $2,378,211 compared to $1,683,120 and $649,405 for 2005 and 2004, respectively. In 2006, we completed enrollment in our U.S. and U.K. Phase I systemic trials and the Phase Ia portion of our U.K. combination REOLYSIN ®/radiation clinical trial. As well, we received authorization to begin and commenced enrollment in our U.K. Phase II combination REOLYSIN®/radiation trial and continued to enroll in the Phase Ib portion of our Phase Ia/Ib U.K. combination REOLYSIN ®/radiation and commenced enrollment in our U.S. Phase I/II recurrent malignant glioma trial.

In 2005, we were actively enrolling in four clinical trials compared to having only two ongoing studies in 2004. 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 2007 compared to 2006. The increase in these expenses is expected to arise from enrollment in our existing clinical trials and enrollment related to the planned 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.

	2006 $	2005 $	2004 $
Research collaboration expenses	**1,064,692**	652,393	262,910
Pre-clinical trial expenses	**62,920**	134,095	561,979
Pre-clinical trial expenses and research collaborations	**1,127,612**	786,488	824,889

In 2006, our research collaboration expenses were $1,064,692 compared to $652,393 and $262,910 in 2005 and 2004, respectively. In 2006, we continued to expand the number of collaborations we entered into compared to 2005. Our research collaboration activity continues to focus on the interaction of the immune system and the reovirus, the use of the reovirus as a co-therapy with chemotherapeutics and radiation, the use of new RAS active viruses as potential therapeutics, and to consider other uses of the reovirus as a therapeutic.

In 2005, we began expanding our collaborative activities and started to investigate the interaction of the reovirus with the immune system along with the use of the reovirus as a co-therapy with existing

chemotherapies and radiation. In 2004, our collaborative activities included studies that used reovirus as a co-therapy in combination with existing chemotherapies and radiation.

In 2006, we incurred pre-clinical trial expenses of $62,920 compared to $134,095 and $561,979 in 2005 and 2004, respectively. Our pre-clinical trial activity changes from year to year as we move through our collaborative and development program.

In 2007, we expect that pre-clinical trial expenses and research collaborations will decline to levels incurred in 2005 and 2004. We expect to continue with our various collaborations in order to provide support for our expanding clinical trial program. As well, we may expand our collaborative activities to include other viruses.

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.

	2006 $	2005 $	2004 $
R&D consulting fees	**321,659**	675,530	290,135
R&D salaries and benefits	**1,548,418**	1,018,144	722,136
Other R&D expenses	**355,131**	242,553	223,401
Other research and development expenses	**2,225,208**	1,936,227	1,235,672

In 2006, our R&D consulting fees were $321,659 compared to $675,530 and $290,135 in 2005 and 2004, respectively. In each of the last three years, we incurred consulting activity associated with our ongoing clinical trials and assistance with our clinical trial applications. In 2005, we incurred similar consulting activity as well as activity associated with our scientific advisory board and the hiring of our Chief Medical Officer.

Our R&D salaries and benefits were $1,548,418 compared to $1,018,144 and $722,136 in 2005 and 2004, respectively. The increase is a result of increases in salary levels along with the hiring of our Chief Medical Officer in the third quarter of 2005.

In 2007, we expect that our Other R&D expenses will remain consistent with 2006. We expect that salaries and benefits will increase in 2007 to reflect increasing compensation levels. Our R&D consulting fees should remain consistent with 2006 levels. 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.

Operating Expenses

	2006 $	2005 $	2004 $
Public company related expenses	**2,494,803**	2,156,614	1,910,611
Office expenses	**1,135,341**	926,758	893,058
Operating expenses	**3,630,144**	3,083,372	2,803,669

In 2006, we incurred operating expenses of $3,630,144 compared to $3,083,372 and $2,803,669 in 2005 and 2004, 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. In 2006, we incurred public company related expenses of $2,494,803 compared to $2,156,614 and $1,910,611 in 2005 and 2004, respectively. The increase in public company related

expenses has been a result of incurring financial advisory services, executive search consulting fees associated with the appointment of two new directors and an increase in our investor relations activity in 2006 compared to 2005 and 2004.

Office expenses include compensation costs (excluding stock based compensation), office rent, and other office related costs. In 2006, we incurred office expenses of $1,135,341 compared to $926,758 and $893,058 in 2005 and 2004, respectively. Our office expense activity has remained consistent over the last three years with increases mainly due to increased compensation levels and a general increase in office costs.

Stock Based Compensation

	2006	**2005**	**2004**
	$	**$**	**$**
Stock based compensation	**403,550**	64,104	2,668,570

Non-cash stock based compensation recorded for 2006 was $403,550 compared to $64,104 and $2,668,570 in 2005 and 2004, respectively. This expense is associated with the granting of stock options to our employees, directors, and certain consultants and in 2006 there was an increase in the number of options granted due to the two newly appointed directors compared to 2005.

Foreign Exchange Loss (Gain)

	2006	**2005**	**2004**
	$	**$**	**$**
Foreign exchange loss (gain)	**35,270**	253,608	358,068

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 fluctuations in the Canadian dollar relative to the U.S. dollar and British pound, we recorded a foreign exchange loss of $35,270 compared to $253,608 and $358,068 in 2005 and 2004, respectively.

Sale of Investments

	2006	**2005**	**2004**
	$	**$**	**$**
Gain on partial sale of investment in BCY LifeSciences Inc.	—	(765)	(34,185)
Net gain from sale of investments	—	(765)	(34,185)

BCY LifeSciences Inc. ("BCY")

In 2005, we sold 120,000 (2004 – 697,945) common shares of BCY for net cash proceeds of $7,965 (2004 – $133,609). This resulted in an accounting gain of $765 (2004 – $34,185).

Commitments

As at December 31, 2006, we are committed to payments totaling $650,000 during 2007 for activities related to clinical trial activity and collaborations. All of these committed payments are considered to be part of our normal course of business.

SUMMARY OF QUARTERLY RESULTS

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

	2006					2005			
	Dec.	**Sept.**	**June**	**March**		**Dec.**	**Sept.**	**June**	**March**
Revenue	**—**	**—**	**—**	**—**		**—**	**—**	**—**	**—**
Interest income	**286**	**320**	**335**	**292**		**160**	**211**	**168**	**245**
Net loss [(3)]	**4,890**	**3,425**	**2,988**	**2,995**		**3,941**	**3,510**	**2,955**	**2,377**
Basic and diluted loss per common share[(3)]	**$0.13**	**$0.09**	**$0.08**	**$0.08**		**$0.12**	**$0.11**	**$0.09**	**$0.07**
Total assets[(1), (4)]	**33,566**	**37,980**	**40,828**	**43,660**		**46,294**	**34,538**	**38,081**	**40,519**
Total cash[(2), (4)]	**27,614**	**31,495**	**34,501**	**37,687**		**40,406**	**28,206**	**31,975**	**34,713**
Total long-term debt[(5)]	**150**	**150**	**150**	**150**		**150**	**150**	**150**	**150**
Cash dividends declared[(6)]	**Nil**	**Nil**	**Nil**	**Nil**		**Nil**	**Nil**	**Nil**	**Nil**

(1) Subsequent to the acquisition of Oncolytics Biotech Inc. by SYNSORB in April 1999, we applied push down accounting. See note 2 to the audited financial statements for 2006.
(2) Included in total cash are cash and cash equivalents plus short-term investments.
(3) Included in net loss and loss per common share between December 2006 and January 2004 are quarterly stock based compensation expenses of $109,670, $34,671, $222,376, $36,833, $38,152, $4,173, $8,404, and $13,375, respectively.
(4) We issued 284,000 common shares for cash proceeds of $241,400 during 2006 (2005 – 4,321,252 common shares for cash proceeds of $18,789,596).
(5) The long-term debt recorded represents repayable loans from the Alberta Heritage Foundation.
(6) We have not declared or paid any dividends since incorporation.

FOURTH QUARTER

Statement of loss for the three month period ended December 31, 2006 and 2005

	2006 $ ***(unaudited)***	**2005 $** ***(unaudited)***
Expenses		
Research and development expenses	**3,953,002**	2,809,943
Operating expenses	**840,497**	973,470
Stock based compensation	**109,670**	38,152
Foreign exchange loss (gain)	**37,973**	55,127
Amortization – intellectual property	**226,150**	206,268
Amortization – property and equipment	**9,258**	17,440
	5,176,550	4,100,400
Interest income	**(286,445)**	(159,841)
Net loss	**4,890,105**	3,940,559

FOURTH QUARTER REVIEW OF OPERATIONS

For the three month period ended December 31, 2006, our net loss was $4,890,105 compared to $3,940,559 for the three month period ended December 31, 2005. The reasons for the increase are as follows:

Research and Development Expenses ("R&D")

	2006 $ *(unaudited)*	**2005 $** *(unaudited)*
Manufacturing and related process development expenses ("M&P")	**1,757,675**	1,121,774
Clinical trial expenses	**805,864**	725,382
Pre-clinical trial expenses and research collaborations	**436,058**	262,015
Other R&D expenses	**953,405**	700,772
Research and development expenses	**3,953,002**	2,809,943

Our R&D expenses were $3,953,002 in the fourth quarter of 2006 compared to $2,809,943 in the fourth quarter of 2005.

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

	2006 $ *(unaudited)*	**2005 $** *(unaudited)*
Product manufacturing expenses	**1,491,554**	951,667
Process development expenses	**266,121**	170,107
Manufacturing and related process development expenses	**1,757,675**	1,121,774

Our M&P expenses increased to $1,757,675 in the fourth quarter of 2006 compared to $1,121,774 in the fourth quarter of 2005. In the fourth quarters of 2006, we increased our manufacturing activity compared to the fourth quarter of 2005 in order to supply our expanding clinical trial program.

Our process development costs were $266,121 in the fourth quarter of 2006 compared to $170,107 in the fourth quarter of 2005. In the fourth quarter of 2006, our process development activity focused on the scale up of our manufacturing process. In the fourth quarter of 2005, our process development activities related to the improvement of process yields.

Clinical Trial Program

	2006 $ *(unaudited)*	**2005 $** *(unaudited)*
Direct clinical trial expenses	**595,072**	665,582
Other clinical trial expenses	**210,792**	59,800
Clinical trial expenses	**805,864**	725,382

Our clinical trial expenses for the fourth quarter of 2006 were $805,864 compared to $725,382 for the fourth quarter of 2005. In the fourth quarter of 2006, we were actively enrolling patients in three clinical trials which included our U.K. Phase II combination REOLYSIN®/radiation trial, the Phase Ib portion of our U.K. Phase Ia/Ib combination REOLYSIN®/radiation trial and our U.S. Phase I/II recurrent malignant glioma trial. As well, we incurred activity associated with new clinical trial applications and clinical trial site selection. 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.

Pre-Clinical Trial Expenses and Research Collaborations

	2006 $ *(unaudited)*	2005 $ *(unaudited)*
Research collaboration expenses	**430,493**	224,673
Pre-clinical trial expenses	**5,565**	37,342
Pre-clinical trial expenses and research collaborations	**436,058**	262,015

Our pre-clinical trial expenses and research collaborations were $436,058 in the fourth quarter of 2006 compared to $262,015 in the fourth quarter of 2005. In the fourth quarter of 2006 and 2005, our research collaboration activity continued to focus on the interaction of the immune system and the reovirus and the use of the reovirus as a co-therapy with chemotherapeutics and radiation. In the fourth quarter of 2006, we increased the number of collaborations we entered into compared to the fourth quarter of 2005.

Other Research and Development Expenses

	2006 $ *(unaudited)*	2005 $ *(unaudited)*
R&D consulting fees	**187,009**	124,936
R&D salaries and benefits	**641,303**	455,771
Other R&D expenses	**125,093**	120,065
Other research and development expenses	**953,405**	700,772

Our other research and development expenses were $953,405 in the fourth quarter of 2006 compared to $700,772 for the fourth quarter of 2005. The increase mainly related to additional regulatory consulting and an increase in annual bonuses paid to officers in the fourth quarter of 2006 compared to the fourth quarter of 2005.

Operating Expenses

	2006 $ *(unaudited)*	2005 $ *(unaudited)*
Public company related expenses	**487,338**	672,010
Office expenses	**353,159**	301,460
Operating expenses	**840,497**	973,470

Our operating expenses in the fourth quarter of 2006 were $840,497 compared to $973,470 in the fourth quarter of 2005. The decline in operating expenses corresponds to a reduction in professional and investor relations fees.

Stock Based Compensation

	2006 $ *(unaudited)*	2005 $ *(unaudited)*
Stock based compensation	**109,670**	38,152

Our non-cash stock based compensation recorded in the fourth quarter of 2006 was $109,670 compared to $38,152 in the fourth quarter of 2005. The stock based compensation expense in the fourth quarter of 2006 related to the granting of options to directors and employees and the vesting of previously granted options.

In the fourth quarter of 2005, stock based compensation expense related to the vesting of previously granted options.

FINANCING ACTIVITIES

In 2006 we issued 284,000 common shares for cash proceeds of $241,400 relating to the exercise of stock options.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

As at December 31, 2006, we had cash and cash equivalents (including short-term investments) and working capital positions of $27,613,748 and $25,719,870, respectively, compared to $40,406,167 and $39,301,444, respectively, for 2005. The decrease in 2006 reflects the cash usage from operating activities and the expenditures on intellectual property of $12,155,372 and $842,610, respectively with cash inflows of $241,400 from the exercise of stock options. This is in line with our 2006 estimate of cash usage of less than $1,200,000 per month.

In February 2007, we increased our cash resources through the sale of 4,000,000 units for net proceeds of approximately $10,590,000. Each unit consisted of one of our common shares and one half of one common share purchase warrant with an exercise price of $3.50 expiring on February 22, 2010. As part of the transaction, we granted an over-allotment option of 600,000 units to the underwriter that, if not exercised, expires on March 24, 2007.

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 2007, 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 expanding clinical trial and collaborative programs. We presently estimate the cash usage in 2007 to increase to $1,400,000 per month and we believe our existing capital resources (subsequent to the recent financing activity) are adequate to fund our current plans for research and development activities well into 2009. 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 $842,610 on intellectual property in 2006 compared to $1,033,035 in 2005. The change in intellectual property expenditures reflects the timing of filing costs associated with our expanded patent base. As well, we have benefited from fluctuations in the Canadian dollar as our patent costs are typically incurred in U.S. currency. During 2006, four U.S. patents and one Canadian patent were issued. At the end of 2006, we exited with a total of 17 U.S., five Canadian and three European patents. We also have other patent applications filed in the U.S., Europe and Canada and other jurisdictions.

Contractual Obligations

We have the following contractual obligations as at December 31, 2006:

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)	394,983	89,430	178,860	126,693	—
Purchase obligations	650,000	650,000	—	—	—
Other long term obligations	Nil	—	—	—	—
Total contractual obligations	1,194,983	739,430	178,860	126,693	150,000

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 6 of the Company's audited 2006 financial statements).

(2) Our operating leases are comprised of our office lease and exclude our portion of operating costs.

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

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. As of December 31, 2006, we had $24,122,237 invested under this policy, currently earning interest at an effective rate of 4.0%.

OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2006, we have not entered into any off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

In 2006 and 2005, 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®, 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, or early studies in humans, whether REOLYSIN® will prove to be safe and effective in humans. REOLYSIN® 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® 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 favorable 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 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, 2006, we had an accumulated deficit of $65.0 million and we incurred net losses of $14.3 million, $12.8 million, and $13.0 million, for the years ended December 31, 2006, 2005, and 2004, respectively. We anticipate that we will continue to incur significant losses during 2007 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, 2006, we had cash and cash equivalents (including short-term investments) of $27.6 million and working capital of approximately $25.7 million. On February 22, 2007 we received net proceeds of approximately $10,590,000 from for the issuance of 4,000,000 units at a price of $3.00 per unit. Each unit consisted of one common share and one half of one common share purchase warrant (see –

"Recent 2007 Progress"). 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 has become increasingly more expensive with increased restrictions. Consequently, there is no assurance that we will continue to be offered this insurance or be able to obtain adequate coverage. The inability to acquire the appropriate insurance coverage will 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 few years 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 40,520,748 common shares outstanding at March 2, 2007. If all of our warrants (4,672,000) and options (3,637,950) were exercised we would have 48,830,698 common shares outstanding.

Our 2006 Annual Information Form is available on www.sedar.com.

Disclosure Controls and Procedures

Evaluation of Disclosure Controls and Procedures :

Our chief executive and financial officers reviewed and evaluated our disclosure controls and procedures. Based on that evaluation, they have concluded that our disclosure controls and procedures are effective in providing them with timely material information relating to the Company.

Management's Annual Report on Internal Control Over Financial Reporting:

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, and has designed such internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles (GAAP), including a reconciliation to U.S. GAAP.

Management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our internal controls and procedures over financial reporting 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 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. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has evaluated the design and operation of our internal control over financial reporting as of December 31, 2006, and has concluded that such internal control over financial reporting is effective as of December 31, 2006. There are no material weaknesses that have been identified by management in this regard. This assessment was based on criteria for effective internal control over financial reporting described in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. As this report is required for U.S. reporting purposes, and we are a "foreign private issuer" as defined in Rule 3b-4 of the U.S. Securities and Exchange Act of 1934, as amended, and we are not a "large accelerated filer", our auditors have not attested to management's evaluation of internal controls over financial reporting for the year ended December 31, 2006.

Changes in Internal Controls over Financial Reporting:

There were no changes in our internal control over financial reporting that occurred during the last fiscal year that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

EXHIBIT 99.A

CERTIFICATE AS REQUIRED BY RULE 13A-14(A) UNDER THE EXCHANGE ACT

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 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
(c) 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
(d) 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 2, 2007

/s/ Brad Thompson

Brad Thompson, PhD
Chief Executive Officer

EXHIBIT 99.B

CERTIFICATE AS REQUIRED BY RULE 13A-14(A) UNDER THE EXCHANGE ACT

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 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
(c) 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
(d) 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 2, 2007

/s/ Doug Ball

Doug Ball, CA
Chief Financial Officer

EXHIBIT 99.C

CERTIFICATION PURSUANT TO 18 U.S.C. §1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Oncolytics Biotech Inc. (the "Company") on Form 40-F for the year ended December 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brad Thompson, the President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The 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 Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 2, 2007

/s/ Brad Thompson

Brad Thompson, PhD
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

CERTIFICATION PURSUANT TO 18 U.S.C. §1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Oncolytics Biotech Inc. (the "Company") on Form 40-F for the year ended December 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Doug Ball, the Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The 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 Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 2, 2007

/s/ Doug Ball

Doug Ball, CA
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 99.3

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report (Form 40-F) of Oncolytics Biotech Inc. of our report dated February 23, 2007, included in the 2006 annual report to shareholders of Oncolytics Biotech Inc.

Ernst & Young LLP

Calgary, Canada
March 2, 2007

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

Approved by Resolution April 23, 2003

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.