

## **Management's Discussion and Analysis of Financial Condition and Results of Operations**

*This discussion and analysis covers the financial statements for the fiscal year ending December 31, 2006, prepared in accordance with Canadian generally accepted accounting principles.*

*All amounts are expressed in US dollars unless otherwise indicated.*

*This discussion and analysis was performed by management using information available as at February 28, 2007. The forward-looking statements in this discussion regarding our expectations of our future performance, liquidity and capital resources and other non-historical statements in this discussion include numerous risks and uncertainties, as described in the "Risk Factors" section of the Annual Information Form dated March 1, 2007 (the "AIF"). Our actual results may differ materially from those contained in any forward-looking statements. Additional information relating to our company is available by accessing the SEDAR website at [www.sedar.com](http://www.sedar.com).*

### **OVERVIEW**

Bradmer Pharmaceuticals Inc. ("BMR" or the "Company") is a life sciences company focused on developing proprietary drugs to treat cancer. Our current efforts are focused on the treatment of Glioblastoma Multiforme ("GBM"), a common form of brain cancer. Our lead product candidate is termed Neuradiab. Neuradiab is a radiolabeled monoclonal antibody which targets a certain protein expressed on 99% of GBM cells, but not on normal brain cells. The therapy has been administered to nearly 200 patients in a series of Phase I and Phase II clinical trials conducted at Duke University. BMR holds the exclusive license to the Neuradiab technology from Duke University. The licensed treatment includes the rights to six issued patents, and twelve patents which are pending in the United States and in other jurisdictions. Terms of the license are described in the AIF and in Note 3 of the Company's December 31, 2006 financial statements.

### **Clinical Development Current Status**

BMR is currently making preparations to initiate a Phase III, multi-center, randomized trial of Neuradiab in newly diagnosed GBM patients. In late 2006, the United States Food and Drug Administration provided guidance to BMR regarding trial design, and management intends to conduct a trial that could produce approvable data. It is anticipated that this Phase III trial could be opened for enrollment in mid-2007.

### **Operational Achievements**

During the period ended December 31, 2006, the Company achieved the following steps in preparation for the intended Neuradiab multi-center trial and subsequent planned commercialization:

- Transfer of technology and material from Duke University initiated under the terms of the exclusive license agreement
- cGMP drug manufacturing contracts completed with Laureate Pharma, Inc. (antibody component) and MDS Nordion (radioisotope component)
- Drug manufacturing process development and scale-up work commenced
- Clinical and regulatory advisory experts engaged to guide clinical strategy
- Expansion of intellectual property portfolio originally licensed from Duke University
- Hiring of Alan M. Ezrin, Ph.D. as Chief Operating Officer
- End of Phase II meeting held with the FDA regarding Neuradiab

- European Union Orphan Drug status granted for Neuradiab by the European Medicines Agency
- Contracted with Prologue Research International to provide project management and data management services for the upcoming Neuradiab Phase III trial

### **Corporate Development Events**

BMR was formed on February 10, 2006 as a result of the amalgamation of a private company, Blue Devil Pharmaceuticals Inc. ("Blue Devil"), and a predecessor company also named Bradmer Pharmaceuticals Inc. ("former Bradmer"). Prior to the amalgamation, former Bradmer was a capital pool company under the policies of the TSX Venture Exchange and conducted no operations other than the search for and identification of potential Qualifying Transaction (as defined below) candidates. Pursuant to the TSX Venture Exchange's Capital Pool Company Program, a capital pool company raises money by private placement and subsequently completes an initial public offering. In former Bradmer's case, it conducted a private placement on June 22, 2005 and an initial public offering on the TSX Venture Exchange on September 22, 2005. The proceeds of these transactions were applied toward the search for, identification of, and acquisition of a promising private company or asset. A capital pool company must acquire a company or asset within 24 months of listing on the TSX Venture Exchange. This is called a Qualifying Transaction. After a successful Qualifying Transaction, the capital pool company becomes a regular listed company on the TSX Venture Exchange.

Upon the completion of the amalgamation with Blue Devil on February 10, 2006, which constituted former Bradmer's Qualifying Transaction, BMR commenced full operations. By way of the amalgamation, Blue Devil's cash, intellectual property (including the license to the Neuradiab technology from Duke University), business plan and assembled management team became key assets of BMR.

On February 15, 2006, former Bradmer received final approval from the TSX Venture Exchange for its Qualifying Transaction with Blue Devil. As a result of the completion of the Qualifying Transaction and upon receipt of final TSX Venture Exchange approval, the entity was no longer considered a capital pool company. The resulting issuer, BMR, began trading on the TSX Venture Exchange on Thursday, February 16, 2006 under the symbol "BMR".

The Company subsequently applied for and received approval for its Common Shares to be listed on the Toronto Stock Exchange (TSX). Trading on the TSX commenced on April 18, 2006, under the symbol "BMR", thus marking the Company's graduation from the TSX Venture Exchange.

### **Shareholding impact of the Amalgamation**

Pursuant to the amalgamation, shareholders of Blue Devil (including purchasers of Blue Devil common shares pursuant to a concurrent Cdn\$15 million financing) received an aggregate of 7,367,000 BMR common shares and the securityholders of former Bradmer received an aggregate of 413,605 BMR common shares, 41,360 BMR stock options and 13,787 BMR agent's compensation warrants. Following the completion of the amalgamation, a total of 7,780,605 BMR common shares were issued and outstanding (or 8,014,052 BMR common shares on a fully-diluted basis). Dr. Mark C. Rogers, who is an officer, director and shareholder of BMR, held a controlling interest in both former Bradmer and Blue Devil prior to the amalgamation. Further information describing the amalgamation can be accessed on SEDAR at [www.sedar.com](http://www.sedar.com).

## **CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES**

### **Basis of Presentation**

As a result of the amalgamation on February 10, 2006, the shareholders of Blue Devil controlled BMR and, consequently, the transaction was accounted for as a reverse takeover with Blue Devil as the acquirer and continuing company. Since former Bradmer did not constitute a business, the transaction was accounted for as a capital transaction, that is, a financing and recapitalization of Blue Devil.

In accordance with reverse take-over accounting:

- the assets and liabilities of Blue Devil are included in the balance sheet at their historic carrying value
- the net assets - all monetary - of former Bradmer, are included at fair value
- the capital stock, contributed surplus and deficit of former Bradmer are eliminated.

The comparative balance sheet figures reflected in the financial statements are those of Blue Devil. Since Blue Devil was formed on September 23, 2005, comparative prior year operational results and cash flow results presented reflect Blue Devil's operations for only the period from inception to December 31, 2005.

Our financial statements are prepared in accordance with Canadian GAAP. These accounting principles require us to make certain estimates and assumptions. We believe that the estimates and assumptions upon which we rely are reasonable based upon information available at the time that these estimates and assumptions are made. Actual results could differ from these estimates. The area requiring significant estimates as of December 31, 2006 was stock-based compensation.

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

### **Patent Rights**

Included in patent rights is consideration paid for the acquisition of an exclusive right to use various patents and other costs related to the acquisition and active management of patents. Such costs are capitalized and will be amortized to operations on a straight-line basis over the underlying term of the patents, which range from 9 to 19 years. Management reviews on an ongoing basis the valuation and amortization of the patent rights. The determination as to whether there has been impairment is made by comparing the carrying value of the patent rights to the net recoverable amount of the asset based on undiscounted cash flows. Any excess of carrying value over fair value is charged to operations in the period in which such impairment is determined by management.

### **Foreign Currency**

Monetary assets and liabilities denominated in foreign currencies are translated to United States dollars at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at rates of exchange at each transaction date. Revenue and expenses are translated at the rate of exchange at each transaction date. Gains or losses on translation are included in income.

### **Stock-based Compensation**

The Company uses the fair value method of accounting for stock-based compensation granted to directors, officers and technical consultants. The Company records the expenses associated with such compensation on a straight-line basis over the vesting period of such compensation

payments with a corresponding increase to contributed surplus. Upon exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. The Company has not incorporated an estimated forfeiture rate for stock options that will not vest, rather, the Company accounts for actual forfeitures as they occur.

#### Share Issuance Costs

Costs incurred in connection with the issuance of capital stock are netted against the proceeds received.

#### Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on temporary differences between financial reporting and tax bases of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes. Future income tax assets and liabilities are measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Future income tax assets are recorded in the financial statements if realization is considered more likely than not.

#### SELECTED ANNUAL INFORMATION

	2005	2006
Total Revenues	\$0	\$0
Net Loss	(\$255,223), or (\$0.033) per share	(\$4,445,618), or (\$0.571) per share
Total Assets	\$540,340	\$9,370,961
Total Long Term Financial Liabilities	\$0	\$0
Cash Dividends Declared	none	none

The comparative 2005 figures are those of Blue Devil. Since Blue Devil was formed on September 23, 2005, comparative prior year results presented reflect Blue Devil's operations for only the period from inception to December 31, 2005. Full year operations in 2006 produced the higher loss as we launched full product development efforts for Neuradiab.

#### SUMMARY OF QUARTERLY RESULTS

	Inception to Sept. 30, 2005	Qtr. Ending Dec. 31, 2005	Qtr. Ending Mar. 31, 2006	Qtr. Ending Jun. 30, 2006	Qtr. Ending Sept. 30, 2006	Qtr. Ending Dec. 31, 2006
Total Revenues	\$0	\$0	\$0	\$0	\$0	\$0
Net Loss	(\$12,628)	(\$242,595)	(\$618,431)	(\$670,671)	(\$456,988)	(\$2,699,528)

The increasing net loss trend during the six quarterly periods from inception through December 31, 2006 reflects our evolution from start-up company to operating company. The significantly

higher loss in the quarter ended December 31, 2006 is a function of planned expenditures related to preparation for the upcoming Phase III trial for Neuradiab. In particular, drug manufacturing costs were the primary driver of the increased loss.

## **RESULTS OF OPERATIONS**

For the quarter ending December 31, 2006, we recorded a net loss of \$2,699,528, or \$0.347 per common share based on weighted average outstanding shares of 7,781,346 during the period, compared to a net loss of \$242,595 for the quarter ending December 31, 2005. For the year ended December 31, 2006, we recorded a net loss of \$4,445,618, or \$0.571 per common share based on weighted average outstanding shares of 7,781,082. This compares to a net loss of \$255,223 for the comparative December 31, 2005 short fiscal year.

Research and development expenses totaled \$2,072,617 and \$2,966,384, respectively, for the quarter and year ending December 31, 2006, compared to \$0 and \$0 for the respective prior year periods. Such expenses incurred in 2006 were primarily related to amounts paid under drug manufacturing contracts, as well as amounts paid to clinical and regulatory expert advisors. Management wage expenses, including payroll taxes, of \$302,186 and \$745,878 were recorded during the respective quarter and year ended December 31, 2006 in accordance with employment contracts described in Note 11 of the Company's December 31, 2006 financial statements; management wage expenses were \$150,163 in both the quarter and year ended December 31, 2005. Office and general expenses of \$180,612 and \$594,512 during the respective quarter and year ended December 31, 2006 included charges relating to, among other things, facilities, communications, travel, investor relations, and insurance. Office and general expenses in the comparative quarter and year ended December 31, 2005 period totaled \$28,291 and \$30,654, respectively. Additionally, professional fee expenses, primarily consisting of legal and accounting costs, of \$98,541 and \$282,225, respectively, were incurred during the quarter and year ended December 31, 2006, compared to \$64,141 and \$72,846 incurred during the comparative periods ended December 31, 2005.

Non-cash stock based compensation charges totaled \$66,570 and \$183,369 for the quarter and year ended December 31, 2006, resulting from the issuance of options as described below in the Outstanding Share Capital section. Such stock-based compensation charges totaled \$0 and \$1,560 in the quarter and year ended December 31, 2005. Operational expenses were offset by interest income earned on short term investments of \$107,895 and \$390,913, respectively, during the quarter and year ended December 31, 2006, as compared to \$0 for both the quarter and year ended December 31, 2005. The Company recorded a foreign exchange loss of \$22,100 and a gain of \$27,945 during the respective quarter and year ended December 31, 2006, as Canadian dollar cash holdings fluctuated in value. There were no foreign exchange gains or losses in the periods ended December 31, 2005.

We expect losses to continue for at least three fiscal years as we invest in our product research and development, including clinical trials and regulatory compliance.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Sources and Uses of Cash**

Our operational activities for the period ended December 31, 2006 were financed by the proceeds of separate pre-amalgamation financing events. Prior to the amalgamation, Bradmer received gross proceeds totaling Cdn\$1.0 million from the sale of its common shares by way of a June, 2005 private placement and a September, 2005 initial public offering. Net proceeds from the two Bradmer offerings, after deducting share issue costs, amounted to Cdn\$875,244. Also prior to the

amalgamation, Blue Devil received gross proceeds of approximately \$12,975,000 (or Cdn\$15,052,000) from the sale of its common shares under concurrent brokered and non-brokered private offerings in Canada and the United States. Net proceeds from the Blue Devil offerings, after deducting share issue costs, amounted to approximately \$12,026,000.

At December 31, 2006, we had working capital of \$7,516,777, as compared to (\$527,914) at December 31, 2005. We had available cash reserves comprised of cash and cash equivalents of \$8,813,427 at December 31, 2006, compared to \$262,723 at December 31, 2005. The increase was related to the receipt of the net proceeds of the Blue Devil private placement as described in the paragraph above, offset by operational expenses during the period. It is anticipated that cash on hand at December 31, 2006 will be sufficient to fund Company operations at least through the remainder of 2007, inclusive of clinical trial costs and infrastructure costs during such period.

As at December 31, 2006, and in the normal course of business, we are obligated to make future payments. These obligations represent contracts and other commitments that are known and committed.

	2007	2008	2009	Thereafter
Commitments under Clinical Trial related Agreements (1)	\$2,454,000	\$26,000	\$0	\$0
Commitments Under License Agreements (2)	\$50,000	\$50,000	\$50,000	\$1,750,000
Operating Lease Commitments	\$0	\$0	\$0	\$0
Other Long Term Obligations (3)	\$1,167,000	\$1,167,000	\$0	\$0
<b>Totals</b>	<b>\$3,671,000</b>	<b>\$1,243,000</b>	<b>\$50,000</b>	<b>\$1,750,000</b>

(1) Clinical Trial related commitments are primarily comprised of (a) milestone-based payments contemplated under current drug manufacturing contracts, (b) clinical trial start-up phase project management costs, and (c) ongoing data management services being provided for related prior clinical trials. It is anticipated that the Company will sign further substantial fee-for-service and milestone-based agreements for drug production and clinical trial management services in 2007; such agreements will be cancelable to a significant degree should the Company discontinue the research work related to those agreements.

(2) Pursuant to the Duke University license agreement, the Company has various commitments as described in the Annual Information Form of Bradmer dated March 1, 2007. The majority of these commitments are contingent upon achievement of certain milestones which may or may not be achieved. The amounts disclosed in this table represent future minimum annual royalties and milestone fees related to the primary indication for use. All upfront license fees and prior patent cost reimbursement payments have been satisfied as of December 31, 2006. The amounts disclosed exclude potential patent expense reimbursements and royalties, which cannot be estimated at this time.

(3) The reported amounts comprise payments under employment agreements with management, as well as certain consulting agreements with key scientific advisors. All agreements can be terminated by the Company, with resulting termination payments ranging from zero to six months.

The Company had no commitments for capital expenditures as of the date of this report.

### Financial Instruments and Financing Risks

We believe that our current cash position should be sufficient to finance our operational and capital needs at least through the remainder 2007. In order to fund the completion of its Phase III trial for our lead drug, Neuradiab, the Company will need to raise additional funds in the future. Our future cash requirements may vary materially from those now expected due to a number of factors, including the costs associated with the completion of the clinical trials, potential collaborative and license arrangements with third parties, and opportunities to in-

license complementary technologies. We will continue to review our financial needs and seek additional financing as required from sources that may include equity financing, and collaborative and licensing arrangements. However, there can be no assurance that such additional funding will be available or if available, whether acceptable terms will be offered.

### Outstanding Share Capital

As at December 31, 2006, there were 7,781,346 common shares issued and outstanding. In addition, the following securities had been issued that were convertible into common shares:

Type of Security	Convertible into this Number of Common Shares	Date of Expiry	Exercise Price (in Canadian dollars)
Stock Options	41,360	September 22, 2010	\$3.63
Agent's Compensation Warrants	13,046	October 4, 2007	\$3.63
Agent's Compensation Warrants	73,300	February 10, 2008	\$5.44
Stock Options	90,000	February 10, 2016	\$5.44
Stock Options	120,000	March 16, 2016	\$5.44
Stock Options	240,660	September 10, 2016	\$3.25

### Off Balance Sheet Arrangements

We have no off-balance sheet arrangements.

### RELATED PARTY TRANSACTIONS

During the year ended December 31, 2006, we incurred approximately \$272,000 in charges for legal services provided by a firm in which a director of the Company is a partner. Such transactions were conducted under normal business terms.

### FUTURE PROSPECTS

In its current early state of evolution, BMR has assembled the appropriate intellectual, financial, and human capital to advance its lead drug for brain cancer into a late stage clinical trial. Through the conduct of this trial, the Company has the potential to produce data within approximately three years of its commencement that is presentable to the FDA in the form of a New Drug Application (NDA), which can result in initial marketing approval. At present, the Company's value proposition is derived from the historical clinical trial results for Neuradiab, BMR's lead drug candidate, for the treatment of Glioblastoma Multiforme ("GBM"). GBM is the most common form of primary brain tumor, with up to 30,000 new cases diagnosed per year in North America, Europe, and Japan.

Until 2005, the long-standing standard of care treatment course for GBM had been surgical resection followed by various forms of radiation therapy. In 2005, an oral chemotherapy agent known as temozolomide (Temodar™ by Schering-Plough) was approved by the FDA as an addition to this first-line treatment regimen.

BMR's novel new compound, Neuradiab (formerly described as <sup>131</sup>I-81C6 in literature), addresses one of the key weaknesses in the current therapy regimen. GBM's typically have infiltrating edges that are very difficult to remove surgically. Externally delivered radiation has limitations given the difficulty in focusing its energy specifically on remaining tumor cells and its potential to harm nearby sensitive and critical tissues. Neuradiab is a radiolabeled monoclonal antibody

that is delivered directly into the surgical resection cavity in a separate procedure following the initial surgery. Neuradiab's molecular target is tenascin, a protein which is overexpressed by 99% of all GBM's but is absent from normal brain tissues. Therefore, BMR is able to deliver a concentrated level of radiation specifically to cancer cells that remain following surgical resection. The most recent Phase II study testing Neuradiab as an addition to the surgery / radiation / temozolomide regimen suggested an increase in median overall survival for newly diagnosed GBM patients.

BMR's operational objectives are clear – organize, launch, and execute a Phase III, multi-center, randomized trial testing Neuradiab in newly diagnosed GBM patients. Management believes that success in these endeavours has the potential to create significant value for shareholders.

During 2007, BMR intends to execute on the following components of its operational plan:

- Execute clinical trial contracts with leading GBM treatment centers across the US
- Complete the cGMP manufacturing of the initial quantities of Neuradiab for testing and use in the upcoming clinical trial
- Submit all requested information to the FDA, including updated manufacturing data and finalized protocol, and achieve clearance to initiate the Company's planned Phase III multi-center trial
- Begin enrollment in the Phase III trial for Neuradiab

BMR's strategy also involves the identification and potential acquisition of other novel cancer drugs in clinical development.

#### **DISCLOSURE CONTROLS AND PROCEDURES, AND INTERNAL CONTROL OVER FINANCIAL REPORTING**

The accompanying financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. For quarterly reporting periods, the Company's financial statements are approved by the Audit Committee. For annual reporting periods, the Company's financial statements are approved by the Board of Directors upon recommendation by the Audit Committee. The integrity and objectivity of these financial statements are the responsibility of management. In addition, management is responsible for all other information in this report and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

In support of this responsibility, management maintains a system of internal controls to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets. In particular, the CEO and CFO are responsible for establishing and maintaining disclosure controls and procedures ("DC&Ps") and internal controls over financial reporting ("ICFRs") for the Company, and we have:

- (a) designed such DC&Ps, or caused them to be designed under our supervision, to provide reasonable assurance that material information is made known to us during the period in which the annual filings are being prepared; and
- (b) designed such ICFRs, or caused them 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 Canadian GAAP; and

(c) evaluated the design and effectiveness of the Company's DC&Ps as of the year ended December 31, 2006, and have evaluated the design of the Company's ICFRs for the year ended December 31, 2006; and

(d) have concluded that a material design weakness in the ICFRs may exist in terms of the inadequate segregation of certain duties, which is typical of development stage companies; mitigating factors, including dual-payment authorization policies and transparent internal financial transaction reporting processes, serve to minimize the risk that such design weakness could result in a material misstatement of results for the year ended December 31, 2006; and

(e) have concluded that, other than the item described above in sub-point (d), there are no additional material design weaknesses in the DC&Ps or ICFRs, and that the effectiveness of the DC&Ps is sufficient to expect the prevention or detection of material misstatements of results.

The financial statements include amounts that are based on the best estimates and judgments of management. The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Board of Directors exercises this responsibility principally through the Audit Committee. The Audit Committee consists of three directors not involved in the daily operations of the Company. The Audit Committee meets with management and the external auditors to satisfy itself that management's responsibilities are properly discharged and to review the financial statements prior to their presentation to the Board of Directors for approval.

The external auditors, DMCT, LLP, conduct independent examinations, including the audit of annual statements and the review of interim statements, in accordance with Canadian generally accepted auditing standards, and provide a report of their findings to the Audit Committee. The external auditors have free and full access to the Audit Committee with respect to their findings concerning the fairness of financial reporting and the adequacy of internal controls.