

# **Bradmer Pharmaceuticals Inc.**

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

**June 30, 2007**

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

*This discussion and analysis covers the financial statements for the three and six month periods ending June 30, 2007, prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Our fiscal year end is December 31<sup>st</sup>.*

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

*This discussion and analysis was performed by management using information available as at July 30, 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"), and as highlighted below in the "Operational Risks" section. The words "anticipates", "believes", "estimates", "expects", "intends", "may", "plans", "projects", "will", "would" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. 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 twenty-three issued patents, and seventeen patents which are pending in the United States and in other jurisdictions. Material terms of the license are described in the AIF and in Note 4 of the Company's June 30, 2007 financial statements.

### **Clinical Development Current Status**

Bradmer is currently working with the United States Food & Drug Administration (the "FDA") to obtain permission to initiate a proposed multi-center Phase III trial for the adjuvant use of Neuradiab in the management of GBM. Subject to the approval of the FDA and the receipt of other regulatory approvals, the Corporation intends to implement a randomized, two-arm multi-center study with more than 300 patients in each arm comparing the current standard of care with a group receiving the standard of care and Neuradiab. Assuming the receipt of requisite regulatory approvals, Bradmer plans to initiate this trial in late 2007.

### **Operational Achievements**

During and subsequent to the period ended June 30, 2007, the Company achieved the following steps in preparation for the intended Neuradiab multi-center trial and subsequent planned commercialization:

- More than 30 US sites, representing a majority of annual GBM cases, have provided indications of interest to participate in the trial. This is in line with previously stated site recruitment goals.
- The Company completed and submitted to the FDA the trial protocol and all related clinical documents. This represents one of the two major components of Bradmer's required submission to the FDA.
- The Company completed formulation development work for Neuradiab and has begun entry into the final validation phase of the manufacturing process for the drug. The data produced from this final manufacturing phase will comprise the last component of Bradmer's rolling manufacturing data submission to the FDA.
- Hiring of Jean Bourgouin, MD as Vice President, Medical Affairs.

### **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"). The resulting issuer, BMR, began trading on the TSX Venture Exchange on 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 (the "TSX"). Trading on the TSX commenced on April 18, 2006, under the symbol "BMR".

On June 22, 2007, pursuant to a public offering, the Company issued and sold an aggregate of 5,786,869 units, for gross proceeds to the company of Cdn\$23,147,476. Each unit consisted of one common share of the company and one-half of one common share purchase warrant. Each whole warrant entitles the holder thereof to purchase one additional common share of the Company at a price of \$5.60 at any time on or before June 22, 2011. An over-allotment option granted to the underwriters was exercised in part on the closing of the offering.

The net proceeds of the June 2007 public offering will be principally used to fund the further development of Neuradiab and, assuming the receipt of FDA and other requisite regulatory approvals, the Company's proposed Phase III clinical trial of Neuradiab and for general corporate purposes. The timing and magnitude of any future financing events will be based upon factors which include the progress of the proposed Neuradiab clinical trial and data derived therefrom, global distribution strategy evolution, and any further development or pre-commercialization steps as may be required by regulatory authorities in the future.

### **Operational Risks**

The Company is subject to various operational risks. Factors that could cause operational results or events to differ materially from management's current expectations include, but are not limited to:

- changing competitive technology and market conditions;
- the failure to obtain requisite regulatory approvals (including the approval of the FDA) for the Company's proposed clinical trial of Neuradiab in a timely manner, if at all, and other inherent uncertainties related to the regulatory approval process;
- the ultimate costs associated with proposed clinical trial and research may be greater than estimated by the Company at the current time;
- the successful and timely completion of clinical studies; and
- failures by third parties engaged by the Company to adequately perform their responsibilities, including with respect to clinical testing and manufacturing of products.

Management seeks to mitigate these risks, and others, primarily through retaining experienced employees and advisors who have expertise in the scientific, medical, business, regulatory, manufacturing and operational disciplines of oncology drug development.

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

### **Basis of Presentation**

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 areas requiring significant estimates as of June 30, 2007 were stock-based compensation, share issuance costs, and patent rights.

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.

## SUMMARY OF QUARTERLY RESULTS

	Qtr. Ending Mar. 31, 2006	Qtr. Ending Jun. 30, 2006	Qtr. Ending Sept. 30, 2006	Qtr. Ending Dec. 31, 2006	Qtr. Ending Mar. 31, 2007	Qtr. Ending Jun. 30, 2007
Total Revenues	\$0	\$0	\$0	\$0	\$0	\$0
Net Loss	(\$618,431)	(\$670,671)	(\$456,988)	(\$2,699,528)	(\$1,853,497)	(\$1,781,359)

Planned drug manufacturing costs and other clinical trial preparation costs were the primary factors that resulted in the increased loss for the quarters ending December 31, 2006, March 31, 2007, and June 30, 2007.

## RESULTS OF OPERATIONS

For the quarter ending June 30, 2007, we recorded a net loss of \$1,781,359, or \$0.21 per common share based on weighted average outstanding shares of 8,353,674 during the period, compared to a net loss of \$670,671 for the quarter ending June 30, 2006. For the six months ended June 30, 2007, we recorded a net loss of \$3,634,856, or \$0.45 per common share based on weighted average outstanding shares of 8,069,091. This compares to a net loss of \$1,289,102 for the comparative six month period ended June 30, 2006. The increased losses during the 2007 periods were primarily related to higher planned research and development spending with regard to the Company's lead clinical program, Neuradiab.

Research and development expenses totaled \$1,092,549 and \$2,365,469, respectively, for the three and six month periods ending June 30, 2007, compared to \$323,300 and \$658,810 for the respective prior year periods. Such expenses incurred in 2007 were primarily related to amounts paid under drug manufacturing contracts, as well as amounts paid to clinical and regulatory collaborators.

Management wage expenses, including payroll taxes, of \$291,166 and \$537,220 were recorded during the respective three and six month periods ended June 30, 2007 in accordance with employment contracts described in Note 9 of the Company's June 30, 2007 financial statements; management wage expenses were \$155,097 and \$305,765 in the respective prior year three and six month periods. Travel related expenses totaled \$139,264 and \$260,666, respectively, for the three and six month periods ending June 30, 2007, compared to \$68,234 and \$85,549 for the respective prior year periods. The higher travel expenses incurred in 2007 were primarily related to intensified team efforts with regard to clinical development, manufacturing, and investor relations. Office and administrative expenses of \$108,248 and \$239,254 during the respective three and six month periods ended June 30, 2007 included charges relating to, among other

things, facilities, administrative staffing, communications, investor relations, and insurance. Office and administrative expenses for the comparative three and six month prior year periods totaled \$78,713 and \$146,999, respectively. Additionally, professional fee expenses of \$110,743 and \$183,019, respectively, were incurred during the three and six month periods ended June 30, 2007, compared to \$133,693 and \$151,664 incurred during the comparative periods ended June 30, 2006.

Non-cash stock based compensation charges totaled \$106,026 and \$189,703 for the three and six month periods ending June 30, 2007, resulting from the issuance of options as described below under "Outstanding Share Capital." Such stock-based compensation charges totaled \$8,733 and \$88,786 in the comparative periods ended June 30, 2006. Operational expenses were offset by interest income earned on short term investments of \$78,428 and \$163,919, respectively, during the three and six month periods ended June 30, 2007, as compared to \$115,351 and \$166,723 for the comparative prior year three and six month periods.

## LIQUIDITY AND CAPITAL RESOURCES

### Sources and Uses of Cash

Our operational activities for the period ended June 30, 2007 were financed by cash on hand, and the proceeds of the public offering closed on June 22, 2007, which yielded gross proceeds of Cdn\$23.1 million. After deducting cash-based share issue costs and converting to US dollars, net proceeds totaled \$19.6 million. At June 30, 2007, we had working capital of \$23,577,576, as compared to \$7,516,777 at December 31, 2006. We had available cash reserves comprised of cash and cash equivalents of \$24,197,265 at June 30, 2007, compared to \$8,813,427 at December 31, 2006. The increase was related to proceeds of the public offering, offset by operating losses during the period. It is anticipated that cash on hand at June 30, 2007 will be sufficient to fund Company operations at least through 2009, inclusive of clinical trial costs and infrastructure costs during such period.

As at June 30, 2007, and in the normal course of business, we are obligated to make certain 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)	\$1,770,000	\$3,375,000	\$3,085,000	\$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)	\$585,000	\$1,170,000	\$520,000	\$0
<b>Totals</b>	<b>\$2,405,000</b>	<b>\$4,595,000</b>	<b>\$3,655,000</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 project management and data collection costs, and (c) ongoing data management services being provided for related prior clinical trials; such agreements are cancelable to a significant degree should the Company discontinue the research work related to those agreements. It is anticipated that the Company will sign further fee-for-service and milestone-based agreements for drug production and clinical trial services in 2007.

(2) Pursuant to the Duke University license agreement, the Company has various commitments as described the AIF. 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. 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 2009. In order to fund the completion of the Phase III trial for our lead drug, Neuradiab, it is possible that 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 and if available, whether acceptable terms will be offered.

### Outstanding Share Capital

As at June 30, 2007, there were 13,568,215 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
Stock Options	25,000	January 1, 2017	\$3.60
Stock Options	115,000	March 5, 2017	\$4.56
Investor Warrants	2,893,435	June 22, 2011	\$5.60
Agent's Compensation Warrants	347,212	June 22, 2009	\$4.00

### Off Balance Sheet Arrangements

We have no off-balance sheet arrangements.

### RELATED PARTY TRANSACTIONS

During the quarter ended June 30, 2007, we incurred approximately \$365,000 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

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 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, a concentrated level of radiation is delivered 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 its proposed 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 and into early 2008, 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 remaining requested information to the FDA, including updated manufacturing data, and achieve clearance to initiate the Company’s planned Phase III multi-center trial; and
- begin enrollment in and ramp-up of the proposed Phase III trial for Neuradiab.

BMR’s future strategy may also include 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 GAAP. 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. There have been no changes in internal control over financial reporting during the quarter ended June 30, 2007 that have materially affected, or are reasonably likely to materially affect the Corporation's internal control over financial reporting.

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.