ANNUAL INFORMATION FORM

OF

ONDINE BIOPHARMA CORPORATION
910-1100 Melville Street
Vancouver, British Columbia, V6E 4A6

For the year ended December 31, 2009

Dated March 24, 2010

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PRELIMINARY NOTES

In this Annual Information Form ("AIF"), Ondine Biopharma Corporation is referred to as "Ondine" or the "Company". All information contained herein is as at December 31, 2009, unless otherwise stated.

Financial Statements

This AIF should be read in conjunction with the Company's audited consolidated financial statements and management's discussion and analysis for the year ended December 31, 2009. The consolidated financial statements and management's discussion and analysis are available under the Company's profile on the SEDAR website at www.sedar.com. The Company's consolidated financial statements and all financial information in this AIF are prepared in accordance with Canadian generally accepted accounting principles.

Currency

All sums of money which are referred to in this AIF are expressed in Canadian dollars, unless otherwise specified.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This AIF contains statements such as "believe", "intend", "may", "will", "should", "plans", "anticipates", "believes", "potential", "intends", "expects" and other similar expressions, which are forward-looking statements that involve a number of both known and unknown risks and uncertainties, as well as those factors discussed under "Describe the Business - Risk Factors". Forward-looking statements, particularly as they relate to product development, clinical studies, regulatory clearance, the marketing and sales of products, and the timing or magnitude of such events are inherently risky and uncertain. Factors that could cause actual results to differ materially from those projected in the Company's forward-looking statements include, but are not limited to, the following: our limited operating history, our dependence on agreements with UCLB, the receipt or delay in receiving regulatory clearances, the success or failure of clinical studies, market acceptance of our technologies and products; our ability to obtain financing; our financial and technical resources relative to those of our competitors; our ability to keep up with rapid technological change; government regulation of our technologies; our ability to enforce our intellectual property rights and protect our proprietary technologies; our ability to obtain and develop partnership opportunities; our ability to secure adequate insurance; share price volatility; the timing of commercial product launches; the ability to achieve key technical milestones in key products; our ability to attract and retain key employees; fluctuation in currency exchange rates; credit risk; counterparty risk; and other risk factors identified from time to time in the Company's filings. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. The Company is under no obligation to update any of the forward-looking statements contained in this AIF after the date hereof to conform such forward-looking statements to the Company's actual or future anticipated results. Accordingly, readers should not place undue reliance on forward-looking statements.

DEFINITIONS

The following are selected abbreviations and definitions of terms used herein:

"Alplight Agreement"	the product purchase agreement between OBC, PDT and Alplight AG dated February 18, 2010, details of which are contained in this document
"APT"	Advanced Photodynamic Technologies, Inc., a wholly-owned subsidiary of OBC acquired in December 2009, particulars of which are set out in the material change reports filed by the Company on November 24th and December 17th, 2009
"APT Acquisition"	the acquisition of APT by the Company that closed on December 7, 2009;
"APT SPA"	the Share Purchase Agreement between the Company and APT dated November 15, 2009 pursuant to which the Company acquired APT on December 7, 2009, details of which are contained in this document
"the Act"	the British Columbia Business Corporations Act and includes the former Company Act (British Columbia)
"AIM"	the AIM market of the London Stock Exchange
"Board" or "Directors"	the directors of the Company whose names are set out under the heading "Directors and Officers" in this document
"Combination IP License Agreement"	the license agreement between PDT, OIL and OIHL dated June 5, 2009, details of which are contained in this document
"Common Share"	a common share in the capital of OBC
"Dental Healthcare Business"	the Company's dental healthcare assets, business and undertakings that were sold to PDT on June 5, 2009.
"Dental Sale"	the sale of the Company's Dental Health Business to PDT that closed on June 5, 2009, particulars of which are set out in the material change report filed by the Company on June 15, 2009
"EU"	the countries that comprise the European Union, consisting of 27 European countries including, among other countries, the United Kingdom, France, Germany, Italy and Spain
"FDA"	the US Food and Drug Administration
"HHL"	Hand held laser light source that the Company intends to supply as part of the Periowave™ product and as part of other PDD applications that the Company intends to develop
"HSC"	Henry Schein Canada, Inc., a wholly owned subsidiary of HSI
"HSI"	Henry Schein, Inc.
"ISO"	the International Organization of Standards, a quality standards organization based in Geneva, Switzerland
"LBS"	laser base station counter top light source that currently forms part of the Periowave™ product

"Management"	the officers of the Company whose names are set out under the heading "Directors and Officers" in this document
"Management Services Agreement"	The agreement between OBC, ORL and PDT, pursuant to which the Company provides management services to PDT, details of which are contained in this document
"Manufacturing Agreement"	The agreement between PDT, OIL and OBC, pursuant to which the Company is the exclusive supplier of Periowave™ product to PDT, details of which are contained in this document
"MRSAid™"	The Company's product under development for decolonization of pathogenic bacteria such as MRSA in the anterior nares
"OBC"	Ondine Biopharma Corporation
"OBU"	Ondine Biopharma (U.S.A.), Inc., a wholly-owned subsidiary of OBC
"OIL"	Ondine International Limited, OBC's former wholly-owned subsidiary which was acquired by PDT in connection with the Dental Sale
"ORL"	Ondine Research Laboratories, Inc, a wholly-owned subsidiary of OBC
"Periowave™"	the Company's first commercial PDD product for the treatment of periodontitis in adults as an adjunct to standard methods of care.
"PETT System"	the photodynamic endotracheal tube treatment system, the Company's product currently under development that is designed for the in situ disinfection of endotracheal tubes to prevent VAP. The product was acquired in the APT acquisition.
"PDT"	Periowave Dental Technologies Inc., the company that purchased the Company's Dental Healthcare Business on June 5, 2009. Where the context requires, PDT includes PDT and OIL, PDT's wholly owned subsidiary
"PDT SPA"	The Share Purchase Agreement between the Company and PDT dated June 5, 2009 pursuant to which the Company sold its Dental Healthcare Business to PDT, details of which are contained in this document
"PhotoBiologix"	PhotoBiologix Inc., a company owned by Merrill Biel, a director of the Company, and his spouse
"Purchased IP"	the IP purchased by PDT from the Company in connection with the Dental Sale
"TSX"	The Toronto Stock Exchange
"UCL"	University College London
"UCLB"	UCL Business PLC, a wholly-owned subsidiary of UCL
"UCLB 1999 License Agreement"	the license agreement with an effective date of April 30, 1999 with UCLB, details of which are contained in this document
"UCLB 2006 License Agreement"	the license agreement made as of January 31, 2006 with UCLB, details of which are contained in this document
"UCLB 2008 License Agreement"	the license agreement signed on July 14, 2008 with UCLB, details of which are contained in this document
"UCLB 2006 Research Agreement"	the research agreement with an effective date of September 1, 2005 that the Company entered into in May 2006 with UCLB, details of which are contained in this document
"US" or "USA"	United States of America

GLOSSARY OF TECHNICAL TERMS

In this AIF, the following technical terms have the following meanings:

"chronic rhinosinusitis"	chronic rhinosinusitis is a complicated spectrum of diseases that share chronic inflammation of the sinuses in common. Symptoms may include any combination of the following: nasal congestion; facial pain; headache; night-time coughing; an increase in previously minor or controlled asthma symptoms; general malaise; thick green or yellow discharge; feeling of facial 'fullness' or 'tightness' which may worsen on bending over; aching teeth, and/or halitosis.
"dental implant"	a manufactured post that is put in the jaw bone to create a stable foundation for a false tooth, a denture or a bridge
"derma-care"	the category of treatments and services for diseases of the dermis, mucous membrane and nail beds, as delivered by medical specialists and professionals
"endodontics"	The branch of dentistry concerned with the treatment of the tooth pulp and tissues surrounding the root of a tooth
"*ex vivo*"	in context of medical research, a study carried out done in or on tissue in an artificial environment outside the organism with the minimum alteration of natural conditions
"gingival pocket" or "pocket"	a crevice between the tooth and the supporting soft tissue
"gingival"	the gum tissue surrounding the tooth
"HAI"	hospital acquired infection
"head and neck cancer"	head and neck cancer refers to a group of biologically similar cancers originating from the upper aerodigestive tract, including the lip, oral cavity (mouth), nasal cavity, paranasal sinuses, pharynx, and larynx.
"ICU"	the intensive care unit of a hospital
"*in vitro*"	in context of medical research, a study carried out in an artificial environment outside of living organisms
"*in vivo*"	in context of medical research, a study carried out within a living organism
"LED"	Light emitting diode
"MRSA"	Methicillin resistant *Staphylococcus aureus*
"MB"	Methylene Blue, a photosensitizer
"onychomycosis"	fungal nailbed infections
"oral care"	the category of treatments and services for diseases of the oral cavity, as delivered by oral care specialists and professionals
"otitis externa"	inflammation of the outer ear and ear canal
"PDD"	Photodisinfection, the employment of photosensitive compounds activated by laser light to deliver targeted microbial destruction
"Periodontitis"	a chronic, progressive bacterial infection that results in the destruction of the tissues that surround and anchor the teeth

“peri-implantitis”	inflammatory conditions, including peri-mucositis, caused by reactions to bacterial infections of the tissue surrounding a dental implant
“photosensitizer(s)”	an agent which reacts to specific light sources
“prokaryotic cells”	cells which possess no distinct nucleus
“SRP”	An acronym for scaling and root planing, currently the method most commonly used in dentistry for the treatment and prevention of periodontal disease
“sub-gingival”	below the gum line
“topical”	the superficial structure of the epidermis and mucous membrane
“VAP”	Ventilator-associated pneumonia
“wound care”	the category of treatments and services for diseases occurring within burns, lacerations and trauma wounds, as delivered by medical specialists and professionals

CORPORATE STRUCTURE

Name, Address and Incorporation

The Company was incorporated on September 9, 1996 as 526736 B.C. Ltd. under the Act. The Company changed its name to Mutapa Gold Corp. on November 12, 1996; and then to Mutapa Copper and Cobalt Inc. on December 8, 1998; and then to Springbank Ventures Inc. on July 4, 2003. On July 4, 2003 the Company consolidated its share capital on the basis of one (1) new common share for every four (4) common shares. The Company changed its name to Ondine Biopharma Corporation on March 22, 2004.

The registered and records office of the Company is located at 1500 Royal Centre, 1055 West Georgia Street, PO Box 11117, Vancouver, British Columbia, V6E 4N7 and the head office is located at 910-1100 Melville Street, Vancouver, British Columbia, V6E 4A6.

Inter-corporate Relationships

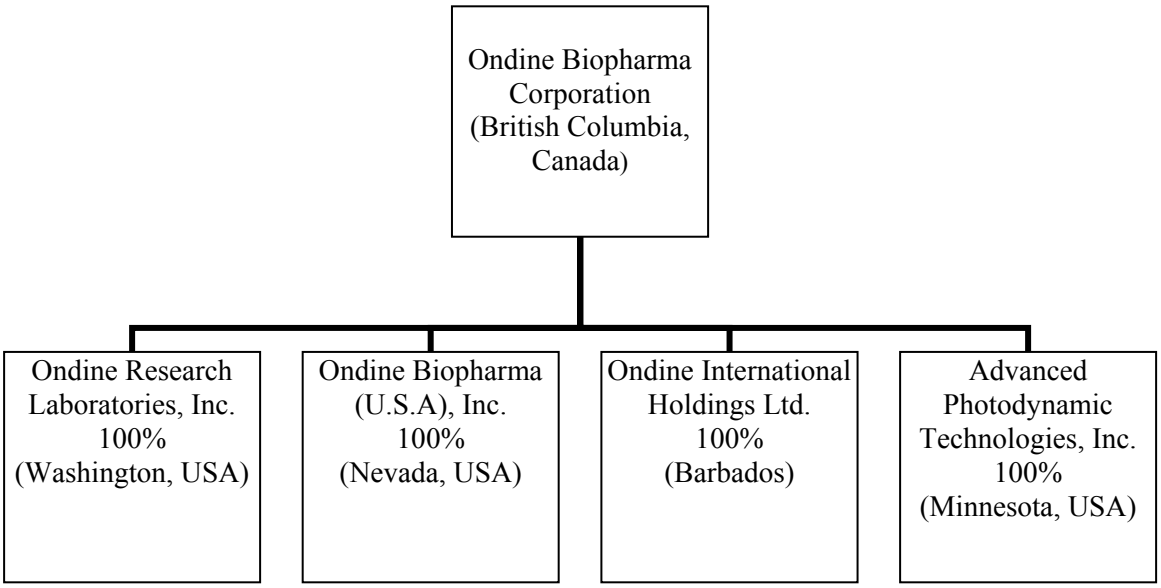
The Company has the following subsidiary companies:

Name	Jurisdiction of incorporation or organization	Percent of voting common shares owned by the Company
Ondine Research Laboratories, Inc. (ORL) [1]	Washington, USA	100%
Ondine International Holdings Ltd. (OIHL) [2]	Barbados	100%
Ondine Biopharma (U.S.A.), Inc. (OBU) [3]	Nevada, USA	100%
Advance Photodynamic Technologies, Inc. (APT)[4]	Minnesota, USA	100%

Notes:

1. Incorporated in April 2004. ORL is primarily engaged in research and development on behalf of the Company.
2. Incorporated in May 2009. OIHL owns intellectual property rights as further described herein.
3. Incorporated in April 2006. OBU is currently inactive. It previously preformed certain sales and marketing functions on behalf of the Company.
4. Incorporated in May 1996. APT owns intellectual property rights and is conducting research and development activities as further described herein.

The following chart illustrates the corporate structure of the Company and its subsidiaries:



Unless the context requires otherwise, all references in this AIF to "Ondine" or the "Company" includes OBC and its subsidiaries.

GENERAL DEVELOPMENT OF THE BUSINESS

Three Year History and Significant Acquisitions

Ondine is a Canadian-based publicly traded biotechnology company engaged in the research, development, and commercialization of innovative anti-infective therapies covering a broad spectrum of bacterial, fungal and viral infections primarily using photodisinfection ("PDD") technology as an alternative to the use of antibiotics. PDD utilizes laser-based activation of proprietary photosensitizing compounds for topical applications which can be used in both the dental and medical industries to treat a wide range of infections.

Periowave™ is the first commercial product developed by the Company utilizing its PDD platform technology. Sales of Periowave™ commenced in April 2006. During the 2007, 2008, and 2009 (the "Three Year Period"), in addition to its Periowave™ sales activities, the Company continued to develop PDD based products, primarily extensions for the use of Periowave™ in dental applications and products intended for use in medical applications. Sales of Periowave™ in 2007 and in the first quarter of 2008 were made primarily to one exclusive distributor in Canada and in certain countries in Europe. During the last three quarters of 2008 and the first half of 2009 sales of Periowave™ were made primarily to three distributors in Canada.

On June 5, 2009, the Company completed the sale of its Dental Healthcare Business to PDT. Details of the transaction are described herein under "Agreements and Licenses" – "The Share Purchase Agreement with PDT". The assets acquired by PDT from the Company in the Dental Sale included, among other things,

inventory of Periowave™ product, the UCLB 1999 License Agreement which underlies the Periowave™ product, and all other IP related to, or that was used in, the Dental Healthcare Business. The Company retained the right to use certain of the other IP in non-dental applications pursuant to the Combination IP Licence Agreement as further described herein.

On December 7, 2009, the Company completed the acquisition of APT. Details of the transaction are described herein under "Agreements and Licenses" – "The Share Purchase Agreement with APT". Substantially all of APT's assets consisted of its intellectual property in connection with proposed PDD products as further described herein. Products under development by APT utilize technology similar to the Company's existing PDD technology and include treatments for in situ disinfection of endotracheal tubes to prevent VAP; chronic sinusitis; and local treatment of head and neck cancer.

During the Three Year Period the Company raised net proceeds of $8.77 million through the issuance of equity, mainly from funds raised in private placements. In addition, in 2009 the Company received $0.62 million from the Dental Sale and $1.14 million from the sale of an investment. These net proceeds have been used for, among other things, research and development of the Company's products under development; the commercialization and marketing and sales of Periowave™; preparation of submissions to the FDA for approval to market Periowave™ in the US; administrative costs; and working capital.

During the Three Year Period, the Company's Common Shares have been listed for trading on both the TSX and AIM stock exchanges under the symbol OBP.

DESCRIBE THE BUSINESS

The Company develops non-antibiotic therapies for the treatment of a broad spectrum of bacterial, fungal and viral infections. The Company is focused on developing and commercializing products employing photosensitive compounds and laser light to provide targeted microbial destruction for oral care applications and for medical care applications. This process uses a platform technology known as "Photodisinfection" or "PDD" which combines the use of a light source and photosensitizing agent to treat infection. PDD provides broad-spectrum antimicrobial efficacy without encouraging the formation and spread of antibiotic resistance. Prior to the Dental Sale, the Company manufactured and sold Periowave™, its first commercial PDD product, through distributors in Canada and Europe. Subsequent to the Dental Sale the Company supplies PDT with Periowave™ products pursuant to the terms of the Manufacturing Agreement.

The Company's strategy is to develop several applications using its PDD technology to address a new range of anti-infective applications. The Company believes the investment made and knowledge gained in developing the initial PDD application for the treatment of periodontal disease may provide significant future benefits for the current and planned PPD applications it intends to develop. Currently the Company's product development program is focused on MRSAid™ and the PETT System to prevent VAP, products designed for the HAI market. The Company is interested in developing a product to address chronic rhinosinusitis, an application which it believes would be well suited to a PDD treatment approach. The Company is also pursuing development of other applications of PDD, including treatments for herpes simplex (cold sores); otitis externa; and onychomycosis.

The Company's head office is located in Vancouver, British Columbia, Canada, its research and development laboratory is in Bothell, Washington, USA, and it has an international office in St. Michael, Barbados.

PDD Technology

Photodisinfection therapies are an emerging field of medicine utilizing light-activated drug compounds called photosensitizers in the treatment of disease. Photosensitizers preferentially attach to prokaryotic cells, thereby targeting these cells for destruction. Photosensitizers are biologically inactive until illuminated by a light source of an appropriate wavelength and intensity. Upon activation, the photosensitizer releases powerful oxidizing agents that result in the physical destruction of the target cell. This mode of therapy has already achieved regulatory clearance by the FDA and other country regulators as a treatment for a number of proliferative diseases, which include a variety of cancers, such as esophageal cancer and non-small cell cancer, as well as age-related macular degeneration of the eye, the primary cause of blindness in older patients.

Management believes that PDD has applications in treating a wide variety of topical infections, involving the direct application of the photosensitizer to the site of disease activity. Because PDD's photosensitizers are topically applied, the generalized light sensitivity characteristic of systemic administration of photosensitizers is avoided. Treatment of the superficial disease site requires only a low-powered and relatively inexpensive light source compared to those used currently for the photodynamic treatment of cancers.

The photosensitizers used for PDD have been shown to target a variety of different microbial structures, including secreted toxins. Unlike antibiotics, which require hours to days to exert their effect, PDD works instantaneously to destroy microbes upon light activation. The Company has produced data which suggests that micro-organisms do not develop resistance to PDD in the same way that they do with traditional antibiotics, making PDD a viable alternative to antibiotic treatment for non-systemic infections.

The Periowave™ product developed by the Company is a non-invasive approach to the treatment of periodontal disease in adults as an adjunct to standard methods of care. Periodontal disease is the leading cause of adult tooth loss. Symptoms of periodontal disease include swollen, bleeding and receding gums, sensitive teeth, foul breath and eventual tooth loss if left untreated. Periodontal disease has recently been linked to serious health problems such as diabetes, heart disease, stroke, respiratory disease and premature births.

Periodontitis is characterized by bacteria that colonize and form a biofilm (a symbiotic colony of bacteria linked by a sugar-like matrix) on the periodontal tissues. A biofilm-based infection is more difficult to eradicate than an infection involving free-floating bacteria. Periodontitis is often treated with dental procedures such as SRP, flap surgery, or through the use of local or systemic antibiotics. None of these treatments used singly or collectively are universally successful in treating periodontitis. Management believes that treatments for periodontitis developed by other companies, that compete with the Periowave™ product, which are not based on photodisinfection therapies, are often painful, relatively costly, and are not always effective.

Agreements and licenses

Share Purchase Agreement with PDT

Pursuant to the terms of the PDT SPA, the purchase price (the "Purchase Price") payable by PDT to Ondine for the Dental Healthcare Business is i) $755,000, consisting of $725,000 (paid at closing); and $30,000 (paid) in connection with the Company's PMA submission; ii) 5% royalties over the ten year period ending June 5, 2019; and iii) a stream of milestone payments which range from $200,000 to $12.5 million (an aggregate of $51.4 million if all of the sales thresholds are attained) based on cumulative sales thresholds ranging from $10 million to $1 billion achieved by PDT. As part of the Purchase Price, the Company also

had the right to receive a $250,000 payment subject to the attainment of a regulatory milestone by November 15, 2009, which the Company did not achieve. In the event of a subsequent sale by PDT of the Dental Healthcare Business to a third party, Ondine would receive, in lieu of further royalties and milestone payments, a percentage of all proceeds of such sale (net of transaction costs and the Purchase Price), up to a maximum of 40 percent if the subsequent sale occurs in the first year and declining on a yearly basis to 5 percent in the sixth year and to 2.5 percent thereafter. In addition, the Company is entitled to i) manufacturing margins on a cost plus basis for exclusively supplying PDT with Periowave™ product pursuant to the terms of the Manufacturing Agreement; and ii) management consulting fees of US $50,000 per month pursuant to the terms of the Management Services Agreement. The Company continues to be responsible for obtaining clearance from the FDA to market Periowave™ in the United States for the treatment of periodontitis in adults as an adjunct to standard methods of care.

Management Services Agreement

The Management Services Agreement was entered into on June 5, 2009 and is for a period of up to twenty-four months, or such shorter or longer period as the parties may agree upon. Pursuant to this agreement, the Company provides PDT with management and transition services, including regulatory, quality management, marketing and technical support (the "Services"), for a monthly fee of US$50,000. Adjustments to the scheduled rates for the Services can be made for changes in use by mutual consent. The agreement can be terminated by either party on three months written prior notice or on 30 days written notice in the case of a material failure of the other party to comply with the obligations which such party has assumed under the agreement, provided that the material failure is not cured before the expiry of the notice period.

Manufacturing Agreement

The Manufacturing Agreement was entered into on June 5, 2009 and is for a period of not less than two years. Under the terms of the agreement the Company is the exclusive provider to PDT of all products manufactured or produced using the Purchased IP, or any part thereof, on a cost plus 20% basis for hardware products, 30% for semi-consumables and a cost plus 40% basis for treatment kits (consumables). The Company has the right to subcontract as it may deem appropriate. On an arms-length sale or sublicense of any of the Purchased IP by PDT, the new owner or sub-licensee will have the right either to assume the Manufacturing Agreement or to manufacture the products itself upon 90 days prior written notice to the Company. The Manufacturing Agreement includes a license of the Purchased IP which permits the Company to use and sublicense the same for the purpose of manufacturing product and otherwise performing its obligations under such agreement. PDT has the right to terminate the Manufacturing Agreement if the Company is unable to perform its functions as manufacturer and supplier. PDT in this circumstance would be entitled to source its products for the Dental Healthcare Business from other suppliers without penalty.

Combination IP Licence Agreement

In connection with the Dental Sale, PDT acquired all of the outstanding shares of OIL. OIL owns the Purchased IP which consisted of all of the Company's IP that related to, or was used in, the Dental Healthcare Business. The Purchased IP consisted of both IP with applications only in the oral cavity and IP with applications both in the oral cavity and outside the oral cavity (the "Combination IP"). On June 5, 2009, PDT and OIL entered into the Combination IP Licence Agreement with OIHL pursuant to which OIL licensed to OIHL any and all applications of the Combination IP in the non-dental field to use on an exclusive, perpetual, freely-transferable, royalty-free worldwide basis.

PDT Research and Development Agreement

During September 2009, the Company entered into a research and development agreement with PDT. Pursuant to the terms of the agreement, the Company has been contracted to develop a handheld laser ("HHL") product for PDT. In connection with this agreement, the Company received US$120,000 ($127,188) in September 2009. The agreement provides that on completion of the project all intellectual property rights to the product will be assigned to PDT and PDT will grant the Company a non-exclusive, royalty free license to market and sell product using the HHL into markets that are not competitive to PDT.

Share Purchase Agreement with APT

Pursuant to the terms of the APT SPA, on December 7, 2009 the Company acquired APT by issuing 8,856,458 common shares to the former owners of APT in exchange for all of the outstanding common shares of APT. The former shareholders of APT are also be entitled to receive contingent share consideration of up to an additional 11,187,105 Common Shares if all milestones are met and 5% of the net proceeds received by the Company from future third party transactions for the commercialization or acquisition of certain of APT's intellectual property. The contingent share consideration ranges from 932,259 to 1,864,517 shares per milestone based on the achievement within defined time frames of nine intellectual property development milestones, consisting of additional patent grants, successful clinical outcomes and receipt of US regulatory approvals.

PhotoBiologix Research and Development Agreement

On December 7, 2009, in connection with the APT Acquisition, the Company entered into a research and development agreement with PhotoBiologix under which PhotoBiologix agreed to provide grant writing services, research and development and clinical trial support for the Company's products. The Company issued 466,130 common shares and agreed to fund certain operating costs of PhotoBiologix as consideration for the agreement.

Alplight Agreement

On February 18, 2010, the Company entered into the Alplight Agreement which commits the Company to product purchases totaling US$566,200 ($601,531). Under the terms of the agreement the Company has the right at its sole option (the "Option") to settle one third of the amount owning for these purchases by issuing, subject to regulatory approval, Common Shares based on the market price, as determined by the policies of the TSX, of the Company's shares (the "Market Price') at the date of product shipment to the Company. However, the Option can only be exercised if the Market Price equals or exceed $0.05, otherwise the Company will be obligated to settle the full purchase obligation in cash.

Under the terms of the Alplight Agreement, the Company also has the option to acquire a royalty free, exclusive, transferable license for a minimum of three years to certain intellectual property applications in connection with a hand held laser. Under the agreement the Company will have the right to use the IP in the medical field and PDT will have the right to use the IP in the dental field. To exercise the option, the Company must purchase a minimum number of hand held laser units from Alplight AG prior to April 15, 2013, in addition to the initial purchase order described above.

UCLB 1999 License Agreement

In April 1999, the Company entered into a license agreement with UCL Business PLC ("UCLB") which was acquired by PDT in connection with the Dental Sale. The UCLB 1999 License Agreement grants an

exclusive worldwide license to the licensee for the duration of the patents to develop, manufacture, have manufactured, use, sell and sub-license products which use the PDD process claimed under the patents in the oral cavity to kill oral micro-organisms, excluding only the treatment of dental caries on the surface of or within the root or structure of the tooth. The rights granted under the UCLB 1999 License Agreement are subject to certain rights granted by UCLB to another company pertaining to the consumer market. The Company is also aware that UCLB has granted a license of its PDD process for the treatment of dental caries and endodontics to Denfotex Ltd. ("Denfotex"), a private company headquartered in Inverkeithing, Fife, United Kingdom. As both the Company and Denfotex have undertaken activities in endodontics they have periodically had discussions with one another in an attempt to find a solution to this situation and UCLB offered to assist in this process; however to the date of the Dental Sale there was no agreement between the Company and Denfotex as to their respective rights in endodontics. The Company understands that PDT does not currently offer a treatment kit for endodontics as part of its product line. A royalty is payable to UCLB under the UCLB 1999 License Agreement based on a sliding scale according to annual sales revenues, subject to a minimum annual payment of £35,000.

UCLB 2006 License Agreement for Wound Care Technology

In January 2006, the Company signed the UCLB 2006 License Agreement, an exclusive license, effective April 15, 2005 (the "Commencement Date"), for worldwide royalty bearing rights for the duration of the patents to develop, manufacture, have manufactured, use, sell and sub-license products arising from the patents of UCLB described in UK patent application GB 0323699.9 entitled "Use of Photosensitisation", which technology is in the field of phage-mediated targeting for the photodisinfection therapy of infectious diseases. The Company paid licensing fees of £75,000 ($150,986) in connection with its acquisition of the UCLB 2006 License Agreement, which were capitalized as an intangible asset. The licensing fees consisted of £37,500 ($74,812) that was paid during 2006 in connection with the signing of the license agreement and £37,500 ($76,174) that was paid during 2007 in connection with issuance of the first patent for this technology. In addition to the licensing fees paid in connection with this agreement, the Company is also obligated to pay UCLB royalties based on a percentage of product sales revenues and a percentage of any sublicense revenue realized by the Company. Subject to keeping the license in good standing, it will expire on a country by country basis on the later of a) ten years from the Commencement Date; or b) on expiry of the last issued patent for the technology in that country. This agreement also includes a minimum royalty obligation of £35,000 ($59,200) per annum commencing in the calendar year that the licensed product is first approved for sale by a national agency in any country or territory.

UCLB 2006 Research Agreement

During 2006 to 2008 the Company contracted out certain of its research and development activities under a research agreement, as amended, that was entered into in May of 2006 with UCLB. The program, which was substantially completed by December 31, 2008, consisted of PDD based research conducted by UCL on derma-care, wound care, nasal, and oral infectious diseases. The Company was obligated to advance funding to UCLB totaling £529,499 ($1,140,926) in connection with this agreement. As at December 31, 2008, the Company had advanced the full amount of the commitment which was expensed during the periods the activities were performed as research and development expenses in the Company's consolidated statements of loss and comprehensive loss.

UCLB 2008 License Agreement

In July 2008, the Company signed the UCLB 2008 License Agreement, an exclusive license, effective August 4, 2007 (the "Commencement Date"), for worldwide royalty bearing rights for the duration of the patents to develop, manufacture, have manufactured, use, sell and sub-license products arising from the patents of

UCLB in the field of gold-nanoparticle photosensitizers for photodisinfection therapy for prevention and treatment of infectious diseases in humans and/or animals. In addition to a one time upfront license fee of £87,000 ($172,239) that was paid in connection with this agreement, the Company is also obligated to pay UCLB royalties based on a percentage of product sales revenues, milestone payments during the first three years of sales of the first commercial product, and a percentage of any sublicense revenue realized by the Company. Subject to keeping the license in good standing, it will expire on a country by country basis on the later of a) ten years from the Commencement Date; or b) on expiry of the last issued patent for the technology in that country. This agreement also includes a minimum royalty obligation of £35,000 ($59,200) per annum commencing in the calendar year that the licensed product is first approved for sale by a national agency in any country or territory.

Patents

In connection with its technologies and products, the Company has obtained patents and has patents pending in the US, Canada, and in a number of other countries. The Company also recently obtained a number of issued and pending patents in connection with the APT acquisition, which have been primarily issued or filed in the US. In addition to these patents, the Company has obtained certain trademarks as further described below. These patents and trademarks are intended to provide a level of protection for the Company's inventions and products from unauthorized use by other parties. The Company may seek further patents and trademarks for its inventions and the products that it develops such as i) changes in photosensitiser formulation; ii) other devices related to the Periowave™ application; and iii) devices and know-how related to the products the Company has under development as described herein. Please refer to "Intellectual property, patent protection and confidentiality" under "Risk Factors" in this AIF for information concerning risk factors associated with the Company's reliance on patent protection.

The 2006 UCLB License Agreement relates to an international patent application WO 2005/034997 entitled Use of Photosensitisation or Conjugate of a Photosensitiser and a Bacteriophage derived from the UK patent application GB 0323699.9 owned by UCLB. This Use of Photosensitisation patent is now issued in South Africa and applications are being prosecuted in Australia, Brazil, China, Canada, the European region, Japan, Hong Kong, Israel, Mexico, New Zealand, USA, United Arab Emirates, Russia, and Egypt.

The 2008 UCLB License Agreement relates to an international patent application PCT/GB2007/002957 entitled Antimicrobials owned by UCLB. This patent application is being prosecuted in Europe, USA, Canada, Israel, Japan, Australia, and South Korea.

Trademarks

The Company has identified and applied for potential product names that can be trademarked for branding its PDD treatment system. Certain of the Company's trademarks were sold to PDT as part of the Dental Sale. Trademarks retained by the Company include MRSAid™, Ondine Biopharma™, Solacin™, and PDD™, all of which have been allowed in the USA, Canada and Europe; Vitalwave™, which has been allowed in the USA, Europe, Australia, Japan and Canada; and Photocidol™, which has been allowed in the USA. The Company did not acquire any trademarks in the acquisition of APT.

Regulatory Clearances and Strategy

Regulations imposed by government authorities in the US, Canada and other countries are a significant factor in the conduct of research and development, manufacturing and eventual marketing activities for a proposed drug or medical product. The requirements to achieve regulatory clearance can vary widely depending on the country. In the US, the development, manufacturing and marketing of drugs and medical devices are

regulated by the FDA, in Canada by Health Canada, and in the Europe Union by the Medical Device Directives (MDD). All of these regulatory authorities impose regulatory processes which relate to the establishment of manufacturing standards and to the safety, efficacy and quality of the drug or device before it is used in clinical studies or is marketed.

Pursuant to the Manufacturing Agreement, the Company continues to be the manufacturer of Periowave™ products and accordingly is responsible for quality control of the product. In addition, the Company is responsible for obtaining clearance from the FDA for the marketing of Periowave™ in the US for the treatment of chronic periodontitis in adults as an adjunct to standard methods of care.

During October 2005, the Company achieved ISO 13485 certification, a critical step to the commercialization of the Periowave™ product. At the same time, the Company received authorization, under the European Union's MDD, to affix the "CE Mark" to the Periowave™ product. CE is an abbreviation of the French phrase "Conformité Européene" which means "European Conformity". The primary component of the certification process was an audit of the Company's quality management system conducted by an independent agency authorized to perform conformity assessments under ISO guidelines and the MDD. ISO 13485:2003 is an internationally recognized process-based quality management system standard for medical devices developed by the ISO. ISO 13485 specifies requirements for a Quality Management System ("QMS") which demonstrates the organization's ability to provide medical devices and related services that consistently meet customer and applicable regulatory requirements. The QMS entails staff training, customer and regulatory communication, product design and development, sourcing and purchasing of materials and services, and delivery of products and services. The Company is also subject to annual quality management system audits conducted by the independent agency to ensure the Company's systems continue to comply with applicable ISO guidelines and the MDD.

In addition to the above requirements, in order for the Company to manufacture products that are intended for sale in the US market, it must adhere to the quality standards as set out in Part 820-CFR – Code of US Federal Regulations Title 21. Accordingly, the Company has designed its QMS to take into account these additional requirements. Furthermore, in the course of reviewing the Company's PMA the FDA will perform a number of audits, including audits of certain of the clinical studies conducted for Periowave™ and an audit of the Company's QMS.

The Company received a Class II medical device license from Health Canada in November 2005 which allows the Company to distribute and sell the Periowave™ system for the treatment of gum disease in Canada.

The Periowave™ product has been designated by the FDA to be a combination product (device/drug). The FDA's Center for Devices and Radiological Health (the "CDRH") is presiding over the regulatory submission and the FDA's Center for Drug Evaluation and Research will provide consultative support. The FDA has classified the Periowave™ System as a Class III device (Premarket Approval, "PMA"). The Company has submitted a PMA application to the FDA, which includes all manufacturing, preclinical, and clinical trial data for the Periowave™ System. The Company has been notified by the FDA that this PMA submission has been accepted for filing. The FDA's action means that the PMA application is sufficiently complete and ready for substantive review. Please refer to "Regulatory clearance" under "Risk Factors" in this AIF for additional information concerning the FDA clearance process and related risks. For more information about the FDA and the submission review process please visit the FDA website at: www.fda.gov.

The Company has also received the following regulatory clearances for additional applications of its PDD technology:

Periowave™

- A Health Canada license for endodontics (root canal) applications, received in November 2006;
- A Health Canada license for the peri-implantitis, which includes peri-mucositis, applications, received in February 2007;
- A Health Canada license for the gingivitis applications, received in March 2007;
- A CE mark for endodontics applications valid in the EU and in certain other countries, received in June 2007;
- A CE mark for the peri-implantitis, which includes peri-mucositis, applications valid in the EU and in certain other countries, received in June 2007; and
- A Health Canada license for the handheld Periowave™ photodisinfection system, received in March 2009. This system utilizes a new model of laser, which is a handheld version of the current countertop laser base station. It is expected the handheld version of the Periowave™ system will be commercialized in the second quarter of 2010.

Pursuant to the terms of the Dental Sale, PDT acquired the rights to these applications; however, Ondine continues to maintain the regulatory approvals for these applications of Periowave™ and currently has the right to manufacturer and sell to PDT products for these applications under the terms of the Manufacturing Agreement.

The existing Periowave™ PDD system can be used for treatment of peri-implantitis and gingivitis in Canada in its current form. The Company does not currently manufacture treatment kits for the endodontics application and further development work, including additional treatment kit design and manufacture, testing, and clinical marketing studies may be required before products for that application can be commercialized.

MRSAid™

- A CE mark for decolonization of pathogenic bacteria, such as MRSA, in the nose valid in the EU and in certain other countries, received in September 2006;
- A Health Canada license for decolonization of pathogenic bacteria, such as MRSA, in the nose, received in March 2007;
- A Health Canada license for a multi-purpose laser system that is suitable for a broad range of applications in high volume settings, such as hospitals and large institutions, received in May 2008; and
- In March 2009, the Company received additional Health Canada Licenses for Ondine's MRSAid™ Photodisinfection System.

PETT System

- In November 2009, APT received an investigational device exemption (IDE) that allows a human clinical study of the PETT System to be performed in the US.

Other Health Canada Approved Indications

- Health Canada approval for decolonization of pathogenic bacteria, such as MRSA, in tracheotomy sites, received in March 2007; and
- Health Canada approval for otitis externa applications, received in May 2008;

The MRSAid™, PETT System, and other proposed products listed above are under development and, among other things; additional regulatory approvals will be required in certain jurisdictions prior to commercialization. In addition to the applications listed above, the Company has a number of other photodisinfection products under development which will also require regulatory approvals prior to commercialization.

Studies Conducted by the Company

Periowave™

Pre-clinical studies

Prior to 2005, a number of pre-clinical studies were performed in both planktonic culture (petri dish) and biofilm culture (constant-depth film fermenter) using the Company's PDD system on a variety of micro-organisms. In addition, testing was performed on animal models. Deployment in human volunteers was limited primarily to the testing of biometric factors such as probe design and other experimental hardware variables. Limited micro-biological sampling was also carried out.

Clinical studies

During the period from 2005 to 2008, the Company sponsored a number of clinical studies, all of which utilized its initial PPD system for the treatment of periodontal disease in adults as an adjunct to standard methods of care. The clinical studies encompassed a wide range of patient populations, different geographic regions and varying clinical locations including university dental schools and private practice sites..

In 2005, the Company completed in Everett, Washington, USA the first human study of its PDD system in patients with chronic periodontitis. This clinical study was a randomized, controlled study comparing SRP alone to SRP together with the Company's adjunctive PDD therapy. The addition of Periowave™ to SRP resulted in a statistically and clinically significant improvement in a primary endpoint, the clinical attachment level.

During 2006, the Company completed a clinical study on the use of the Company's Periowave™ PDD system for the treatment of periodontitis conducted at two universities in China in collaboration with the Loma Linda University School of Dentistry, Center for Dental Research, in Loma Linda, California, USA (the "Loma Linda Study") and during 2007 the Company has completed a clinical study at the University of British Columbia in British Columbia, Canada (the "UBC Study"). The Loma Linda Study was a prospective, randomized, controlled, blinded clinical trial, designed to evaluate the benefits of Periowave™ as a maintenance therapy in patients with moderate to severe adult periodontitis. The UBC study was designed to evaluate the Periowave adjunctive treatment in the well-maintained, non-smoking periodontal patient.

On September 10, 2007, the Company announced results of a meta-analysis (statistical review of pooled clinical trial data) of its Periowave ™ photodisinfection system in the treatment of gum disease. The analysis covered three trials enrolling a total of 126 patients at four clinical centers over the past two years. Among other data, the meta-analysis found that Periowave™ used in a re-treatment protocol (six weeks apart) produced 2.3 times more clinically relevant (≥2 mm) gingival pocket depth reductions than the gold standard of SRP alone ($p<0.0001$).

The studies included in the meta-analysis were the trial conducted at an independent clinic in Everett, WA, where clinically and statistically significant endpoints were achieved; the two-center study conducted by Loma Linda University, where clinically and statistically significant endpoints were achieved; and the study

conducted by University of British Columbia, where it was found that the protocol allowed for too few patients meeting inclusion criteria to be recruited. Patients in the UBC study who did meet inclusion criteria were included in the meta-analysis. No treatment-related adverse events were reported at any center. Endpoints included gingival pocket depth, clinical attachment level and bleeding on probing.

The meta-analysis results supported prior findings, demonstrating that Periowave™ was safe and effective in producing statistically and clinically relevant improvements in periodontal pocket depth when used in conjunction with SRP compared to SRP alone. Periowave™ produced more than double the number of large (≥2 mm) pocket depth reductions than SRP alone ($p<0.0001$). The results were achieved across studies that incorporated different ethnic groups, smoking status, treatment protocols and laser power levels.

During 2006, the Company initiated post marketing approval clinical studies on the use of Periowave™ for the treatment of periodontitis that were conducted in Canada and at University College London Hospital, Eastman Dental Institute, in the United Kingdom. These trials were designed to evaluate Periowave™ for the treatment of periodontitis in adults. The results from these trials will be used to support sales and marketing efforts in Canada, in Europe, and in the US, subject to regulatory clearance. The clinical study in Canada consists of a multi-centered trial conducted at the University of Alberta, University of Western Ontario, University of Saskatchewan and the North York Dental Centre, a private practice. The patient visits for these studies were completed early in the fourth quarter of 2007.

In May 2008, the Company announced the results from the Canadian Multi-Centre Trial, which was the largest study to date. The trial compared the photodisinfection system used in conjunction with SRP to the gold standard of SRP alone for the treatment of periodontal disease. The trial was a prospective, randomized, examiner-blinded study that included 121 patients and 5,330 defect treatment sites. Fifty-eight patients were included in the photodisinfection treatment arm and sixty-three patients were included in the control arm. Two formats of laser system were used in this study: the first was a lower-power first generation laser unit and the second was the Company's commercially available higher-power Periowave™ PDD System. The results showed the lower-power lasers were not able to achieve statistical or clinical significance on any endpoint. Only the patients in the study treated with the Periowave™ PDD System met both the primary endpoint, improvement in clinical attachment level (CAL), and the secondary endpoint, improvement in pocket depth (PD). For all pockets averaged together for those patients, the improvement in CAL was 154% of SRP alone ($p=0.003$) and the improvement in PD was 138% of SRP alone ($p=0.01$). More information about this trial can be found on the ClinicalTrials.gov website: http://clinicaltrials.gov/ct2/show/NCT00297531.

The Company has also completed the analysis of the results of the study conducted at UCLH. The primary endpoint in this study was reduction in probing depth (PD), while secondary endpoints included gain in clinical attachment level (CAL) and bleeding on probing (BOP). . The final data from this study showed that in patients treated with SRP and Periowave there was a highly statistically significant benefit ($p=0.02$) over the group that was treated with SRP alone. A further analysis of the reduction in PD stratified by PD at baseline demonstrated that reduction in PD was related to the initial extent of disease. Reduction in PD for teeth with initial PD of $5mm \leq PD < 6$ mm was highly significant when compared to SRP controls ($p<0.0001$). Similarly, the reduction in PD for teeth with initial PD of $6mm \leq PD < 7$ mm was highly significant when compared to SRP controls ($p<0.001$).

The total enrolment in the studies described above was 376 patients.

MRSAid™

Pre-clinical studies

A number of pre-clinical studies have been performed in connection with the development of the MRSAid™ system, including *in vitro, in vivo* and *ex vivo* testing. The results of the studies performed to date have demonstrated the MRSAid™ treatment effectively destroys clinically relevant pathogens in several different appropriate research models. In addition, no adverse effects have been shown in the studies up to this point. The Company has determined the results of the studies demonstrated safety and efficacy data of sufficient merit to warrant human clinical trials.

Clinical studies

Human testing using MRSAid™ for nasal decolonization has taken place in Canada and Europe. Evaluations in Germany in a small uncontrolled study that used several treatment protocols showed complete elimination of nasal MRSA carriage in 17 of 19 subjects. Subsequent testing in a Canadian MRSA clinic also showed that complete nasal eradication could be achieved with a single application of MRSAid™ and for a number of the subjects in the study decolonization was maintained over a typical hospitalization period of three to five days. The Company intends to continue to support additional clinical studies of MRSAid™ to be performed at key infection control centers in Canada and Europe.

PETT System to prevent VAP

Pre-clinical studies

A number of pre-clinical studies have been performed in connection with the development of the PETT System. Bench *in vitro* and animal studies that satisfy certain FDA regulations have been performed in preparation for human studies. The results of the studies performed to date have demonstrated that PDD therapy effectively destroys the microorganisms and bioflims associated with VAP in several different appropriate research models. No adverse effects have been shown in the studies up to this point. The Company has determined that the results of the studies demonstrated safety and efficacy data of sufficient merit to warrant human clinical trials. In addition, the results of these studies were submitted to the FDA as part the investigational device exemption (IDE) application that received approval to begin a clinical study in the US.

Clinical studies

The Company is currently completing plans for a human clinical study of the PETT System which is expected to commence at a US university hospital during the third quarter of 2010.

Product Descriptions

Periowave™

In connection with the Dental Sale, PDT acquired the rights to the IP that underlies the Periowave™ products. Pursuant to the terms of the Manufacturing Agreement, the Company continues to be the manufacturer of Periowave™ products with all sales being made to PDT. Periowave™ is a site-specific and microorganism-specific treatment designed to reduce periodontal pathogens. The Periowave™ system is intended to be used as an adjunctive treatment to the standard method currently used in dentistry, SRP. As an adjunctive therapy, Periowave™ gives clinicians the ability to enhance patient care within a traditional dental hygiene framework.

The Periowave™ product consists of a laser system with a custom designed handpiece and patient treatment

kits of photosensitizing solution. The treatment consists of two steps. Photosensitizing solution is applied into the periodontal pocket and then a low intensity laser light is placed into the pocket and illuminates the treatment area for a period of sixty seconds. The activated photosensitizer used in the Periowave™ system catalyses oxygen-derived free-radical reactions in the local environment which lethally disrupt pathogenic bacteria and related toxins.

The Periowave™ system business model consists of a one-time hardware purchase (a counter top laser base station with a reusable hand piece) along with on-going purchases of consumables in the form of single-patient treatment kits that contain a syringe that is pre-filled with the photosensitizer solution, a sub-gingival irrigator tip, and a light diffusing tip. Installation of a laser base station should therefore provide an on-going revenue stream from the use of the consumables by the practitioners employing the system.

The Company also intends to supply PDT with a hand held laser for use with the Periowave™ system.

MRSAid™

While MRSA/S. aureus can be found in various reservoirs in humans, a primary anatomical site of colonization is the anterior nasal passages. Asymptomatic S. aureus nasal carriage in healthy individuals has been reported at 20%-55%, and a growing proportion of these colonizers are showing antibiotic resistance. It has been established that the nose represents a primary vector of pathogen transmission from non-infected carriers to themselves and others. In fact, most MRSA infections arise from an endogenous source, and nasal carriage has been found to increase the risk of infection by almost 4-fold. Decolonization therapy for carriers of MRSA/S. aureus has been investigated as a measure to reduce transmission and decrease overall infection rate. Several clinical studies performed by other parties have provided evidence that decolonization of the nose and other body sites can lead to a decrease in nosocomial infection rate.

The MRSAid™ system was developed by Ondine with the goal of safe, rapid, and complete eradication of bacterial pathogens from the nasal passages. The system consists of a 3 Watt Class II laser system and accompanying treatment kit containing disposable plastic nasal illuminators and photosensitizer formulation packaged in a pre-saturated foam applicator. During treatment the photosensitizer formulation is gently applied to the nasal openings, after which a painless illumination step completes the process. The treatment only takes a few minutes and does not require any non-standard patient preparation. The proprietary photosensitizer formulation developed for MRSAid™ was designed to achieve high levels of immediate bactericidal activity while also providing a sustained effect to prevent rebound/regrowth of pathogens after treatment. The MRSAid™ product is currently under development and is not commercially available in any market.

Current MRSA decolonization procedures vary widely, but usually consist of some combination of disinfectant body wash, topical antibiotic for nasal clearance (e.g. mupirocin), and systemic antibiotic therapy. While these methods can be effective, the widespread use of antibiotics is associated with a growing incidence of resistance. Furthermore, topical antibiotics require a treatment course of 5 or more days to be effective, raising issues of patient compliance and potential communicability over the course of therapy. The MRSAid™ system is designed to work as part of a broad infection control/decolonization protocol. It may be used adjunctively with or in replacement of topical nasal antibiotics, and offers the distinct advantages of: 1) absence of development of bacterial resistance to the killing mechanism of photodynamic therapy, 2) elimination of patient compliance issues with a multi-day treatment schedule, and 3) immediate and powerful nasal decolonization of pathogens. Furthermore, the low-level laser light used to activate the photosensitizer does not cause thermal damage or scarring in tissues.

PETT System to prevent VAP

The PETT System to prevent VAP was acquired by the Company as part of the APT acquisition. The PETT System is designed to destroy microorganisms from the lumen of the endotracheal tube. Endotracheal tubes are used in hospital patients who require mechanical ventilation to assist with breathing. The use of these tubes has for some time been recognized as a primary contributor to patients contracting pneumonia during their hospital stay. During intubated ventilation, the surface lining of the endotracheal tubes become coated with microbial biofilm, which serves to continually inoculate the lungs with microorganisms that are known to cause pneumonia. The PETT System is currently under development and is not commercially available in any market.

The treatment involves spraying a small amount of photosensitizer solution on the inside the endotracheal tube and exposing the solution to laser light that is delivered by a very small diameter optical fiber. Both the photosensitizer and optical fiber are placed into the endotracheal tube via an access port in a similar fashion to that routinely performed by respiratory therapists to suction mucus from the inside of endotracheal tubes with a catheter. The placement and use of the PETT system's devices will not affect normal ventilator performance. The entire PDT session will take approximately 15 minutes and does not require that the operator of the system be present throughout the entire procedure.

The PETT System was developed by APT over a six year period and was funded primarily by a Small Business Innovative Research (SBIR) non-repayable grant from the National Institutes of Heath (NIH), Department of Microbiology and Infectious Disease (DMID) for US$3.4 million dollars. APT developed the components of the PETT System which include the photosensitizer, the photosensitizer delivery catheter, the light delivery catheter, the access port adaptor and the laser light source console. The PETT System components were developed and tested under the FDA's design controls requirements for medical devices. In addition, the photosensitizer used in the system has undergone safety and toxicity studies using several animal models. All testing and development documentation was submitted by APT to the FDA, which approved an investigational device exemption (IDE) in November 2009 that will allow APT to perform a pilot human clinical study of the PETT System in the United States.

Production Strategy

The Company's production strategy involves the use of scalable contract manufacturers. Using contract manufacturers allows the Company to focus on product design, reduce up front capital expenditures, respond quickly to changes in demand, choose best practice partners, and limit the Company's exposure to overhead costs. The Company expects that it would continue to use contract manufactures for the products it has underdevelopment, including its MRSAid™ product and the PETT System to prevent VAP.

The Company has used Creation Technologies Inc., at their facility in Burnaby, British Columbia, Canada, for the manufacturing and supply of the Periowave™ laser base station and related hardware since commencement of sales in 2006. Alplight AG, located in Switzerland, supplies the laser system and related hardware for the MRSAid ™ photodisinfection system. The Company has recently entered into a supply agreement with Alplight AG for the supply of the Hand Held laser to be used in the Periowave system™. Oratech LLC., based in Salt Lake City, Utah, USA, manufactures the patient treatment kits used in the Periowave system™ that contain the photosensitizing solution. In addition, during 2007 Accupac, Inc., based in Mainland, Pennsylvania, USA, was added as a potential supplier of patient treatment kits. The Company plans to use Accupac, Inc. in the future as its primary source for purchases of its patient treatment kits.

However, at this time the Company has not transferred the production of its patient treatment kits to Accupac, Inc. and is therefore continuing to use Oratech LLC. as its primary supplier.

As the Company continues to be the responsible manufacturer of the Periowave™ products, it continues to carry product liability insurance.

The Market for the Company's Products

Periowave™

As a result of the Dental Sale, PDT now owns the marketing rights for the Periowave™ products. Management believes that the primary market for the Periowave™ product is the North American dental market, which consists of more than 160,000 general dentists and 6,500 periodontists, together with government agencies, dental schools and universities. Manufacturers supply products and services to this market either on a direct-sale basis or through a dental dealer or distributor network. Such networks are numerous and range from small operators, working on a local city or state basis, to regional distributors covering multiple states, and ultimately to large publicly listed national distributors.

The Periowave™ photodisinfection product is targeted at the oral care professional dental market. In 2008, the US Dental Healthcare Market was estimated at $101.2 billion, or 4.4% of the overall healthcare market, and the US Periodontal Healthcare Market was estimated at US$5 billion.

Prior to the Dental Sale, the Company's sales were primarily made to distributors in Canada. The Company also initiated sales to distributors in certain countries in Europe as further described herein. The Company believes the most significant market for Periowave™ is the US market; however, regulatory approval is required in the US before Periowave™ can be offered for sale in that market.

MRSAid™

The Company's MRSAid product is designed for the rapid decolonization of MRSA from the nasal passages of patients. In the United States, it is estimated that approximately 90 million people, are currently colonized with staph bacteria in the nose and are at risk for transmission and self-infection. It is reported that 292,000 hospitalizations occur per year with a diagnosis of staph infection, of which 126,000 directly relate to MRSA. The highest risk individuals for MRSA infections occur in ICUs, acute care wards, palliative care facilities, inpatient surgery sites and high risk outpatient procedures. Serious and invasive MRSA infections occurred in 94,000 patients, resulting in 19,000 deaths. In 2009, the total hospital acquired infection market in the United States was estimated at $28.4 billion, of which it is estimated $3.2 billion relates to the treatment and prevention of hospital acquired MRSA infections.

PETT System to prevent VAP

It is estimated that the incidence of VAP ranges from 10% to 25% in the 1.3 million US hospital patients who require mechanical ventilation each year. Once developed, VAP has significant morbidity and mortality rates. In the US pneumonia is the leading cause of patient death from HAI, with patients who contract VAP having an associated mortality rate of 24% to 50%. Patients who require mechanical ventilation are typically placed in the ICU with an average need of ventilator assistance of 4 to 5 days. VAP can occur in these patients as quickly as 48 hours after the start of ventilation and the incidence continues to increase as the time of intubation lengthens. Based on a clinical outcome study in the US of over 9,000 patients who developed

VAP, patients with VAP had a significantly longer need for mechanical ventilation (14 days vs. 5 days), a significantly longer stay in the ICU (11 days vs. 6 days), and a significantly longer stay in the hospital (25 days vs. 14 days). Furthermore, each case of VAP resulted in an increase of US$40,000 in mean hospital charges per patient. According to the US Department of Health and Human Services, the cost of treating VAP is conservatively estimated to be US$1.2 billion dollars annually.

Sales and Marketing Strategy

In connection with the Dental Sale, the Company terminated all of its business development associates and ceased its other marketing activities for Periowave™, which eliminated substantially all of its marketing and sales costs for the balance of 2009 compared to $0.78 million for the second half of 2008.

In the second half of 2005 and the first quarter of 2006, the Company established a marketing and sales department in Canada to support the marketing of Periowave™ in Canada. The Company initially distributed Periowave™ product in Canada primarily through Henry Schein Canada, Inc. ("HSC") and, starting in the second and third quarters of 2008, through two additional distributors as further described below. The Company's sales department in Canada included business development associates located across Canada that work in conjunction with its distributors to facilitate sales. Working in conjunction with the distributors' sales force, each business development associate was responsible for promoting the Company's products and providing customer training and support in their assigned geographic area. In addition to these initiatives, among other things, the Company i) participated in dental association conferences across Canada, including arranging for qualified professionals to make presentations at these conferences concerning the Company's technology, ii) held seminars for dental practitioners, iii) provided training by registered dental hygienists to dental practitioners in the use of the Company's product with the objective of increasing treatment kit utilization rates iv) advertised the Company's products in recognized dental industry publications, v) conducted market research studies, vi) worked with its distributors to promote the Company's product, and vi) operated a website on the Internet to provide product information and for educational purposes.

Periowave™ was first made commercially available in Canada on March 9, 2006 at the Pacific Dental Conference held in Vancouver, British Columbia. The Company commenced product shipments to HSC during April 2006. During 2009, sales of the Periowave™ photodisinfection product generated revenue for the Company of $0.58 million (2008-$0.91 million) and a gross profit margin of $362,000 (2008-$185,000). Sales during 2008 and 2009, to the date of the Dental Sale, consisted primarily of sales in Canada to distributors. Subsequent to the closing of the Dental Sale, all of the Company's sales consisted of Periowave product sold to PDT pursuant to the Manufacturing Agreement. Sales during the second half of 2009 $0.07 million compared to $0.45 million during the second half of 2008. PDT acquired an inventory of Periowave™ product as part of the Dental Sale.

During 2010, the Company intends to continue to manufacture and sell the Periowave product to PDT pursuant to the Manufacturing Agreement. The Company expects there would be a substantial increase in future sales of Periowave™ if regulatory approval is obtained in the US.

Sales and Distribution Partners

In February 2008, the Company cancelled an exclusive distribution agreement for the Canadian market with HSC, who continued to distribute the Periowave™ system on a non-exclusive basis. HSC is a wholly owned subsidiary of HIS, a large public company based in the US that is one of the two largest dental distribution companies in North America. During the second and third quarters of 2008, the Company commenced distribution of the Periowave™ system in Canada through two additional national distributors, Patterson

Dental Canada Inc. ("Patterson") and Sinclair Dental Co Ltd. ("Sinclair"). Patterson is a major distributor of dental consumable products and equipment, including high-tech equipment, across Canada. It is a subsidiary of Patterson Companies, Inc., a large public company based in the US that is one of the two largest dental distribution companies in North America. Sinclair Dental Co Ltd. has over 400 employees and distributes a wide variety of dental products, including high-tech equipment, across Canada from British Columbia to Quebec. The Company understands that subsequent to the closing of the Dental Sale, PDT has continued to sell Periowave™ product to these distributors.

In Europe, the Company sold the Periowave™ product to specialized agents who distributed directly to end users. The Company believed this approach was a more cost effective method for entering the European market than employing its own specialist sales team, as was being done in Canada.

Subject to receipt of regulatory clearance, the Company expects that Periowave™ will be launched in the US. The timing of that launch is uncertain as it will depend, among other things, on when the FDA completes their review of the Company's submission and whether or not the FDA grants clearance for the marketing of the Periowave™ products in the US. Various methods could be used to enter the US market. As a result of the Dental Sale, the timing and nature of a US launch of Periowave™ will be determined by PDT.

Competition

Periowave™

In the dental arena, the use of laser light sources in general treatment regimes is routine. However, the current commercial application of PDD for the treatment of periodontal disease or for other oral applications is limited. Management is aware of competing PDD dental systems as follows:

- HELBO Photodynamic Systems GmbH & Co KG ("HELBO"), is a private company headquartered in Grieskirchen, Austria that sells a PDD dental system that uses a laser light source. The system is advertised for use in the treatment of periodontitis, peri-implantitis, and for endodontics applications HELBO's PDD product has received a CE Mark and is currently being offered for sale in Germany, Austria, Switzerland, and Great Britain.
- Denfotex Ltd. ("Denfotex"), a private company headquartered in Inverkeithing, Fife, United Kingdom has a PDD system using a LED light source. A previous version of the system employed a laser light source. The system is advertised for use in the treatment of caries, endodontics, periodontitis, and peri-implantitis applications and is marketed through distributors in certain countries in Europe, in the Russian federation and Baltic States, in Canada, and in the United Kingdom.
- SciCan Medtech AG ("SciCan"), a private company located in Zug, Switzerland that distributes medical and dental products in Canada and in Europe, distributes in Canada and Europe a PDD dental system that uses Denfotex's technology and which is advertised for use in the treatment of caries, endodontics, periodontitis and peri-implantitis.
- Cumdente GmbH ("Cumdente"), a private company located in Tubingen, Germany that distributes dental products in Germany, previously distributed a PDD dental system that uses Denfotex's laser based technology and which was advertised for use in the treatment of caries, endodontics, peri-implantitis, and for certain other soft tissue use in the oral cavity. Cumdente has introduced its own PDD system that uses a laser light source. The advertised uses for the Cumdente PDD product are caries, periodontitis, peri-implantitis, and for endodontics applications. The Company believes certain of the applications for Cumdente's PDD product that are displayed on Cumdente's website violate the intellectual property rights that underlie the Periowave™ product. The Company asked Cumdente to remove the references to those applications; however Cumdente did not cease the activities which the Company believes are violating those intellectual property rights, which were acquired by PDT as part of the Dental Sale.
- Prodigal Dental, a Division of Prodigal Enterprises Inc., is a company domiciled in Canada that

distributes in Canada PDD systems that uses the Denfotex laser based technology and which are advertised for use in the treatment of caries and for endodontics applications.

The information presented above is primarily based on information obtained by the Company from the websites of the respective companies.

The Company believes that, although it is difficult to fully assess the potential impact of these competing products, the dental market for the Periowave™ product is of sufficient size that the presence of these competitors does not preclude the Periowave™ product from being successful in those markets.

Management is not aware of any PDD based dental systems currently being distributed in the US.

Current standard treatments for periodontal disease are SRP and antibiotic based products used as an adjunctive therapy with SRP. Management is aware of the existence of the following adjunctive therapy products which are competitive to the Periowave™ system. All of these products have been approved for marketing for chronic destructive adult periodontal disease:

PRODUCTS	COMPANY	MECHANISM OF ACTION
Periostat®	Collagenex Pharmaceuticals, Inc.	Oral low dose of doxycycline antibiotic
Atridox®	Collagenex Pharmaceuticals, Inc	Gel doxycycline antibiotic, placed sub-gingivally
PerioChip®	Dexcel Pharma Technologies Ltd.	Biodegradable chip of antiseptic chlorhexidine
Arestin®	OraPharma Inc.	Controlled-release minocycline antibiotic

Management believes that the Periowave™ system has the following additional advantages over existing products for treating periodontal disease:

The Periowave™ system eliminates both the pathogens as well as the toxins produced by those pathogens, and employs a localised minimally invasive approach that does not require patient compliance with a course of treatment. Unlike systemic antibiotics, use of the Periowave™ system is not expected to encourage the evolution of microbes that are resistant to the PDD method of treatment.

Application of the Periowave™ system does not require advance preparation and does not require patient hygiene compliance after treatment. The solution used in the Periowave™ system is flushed out of the infected periodontal pockets after application and accordingly it does not oppose gum reattachment by separating gum tissue from the tooth.

MRSAid™

The Company has identified certain competitive products for nasal decolonization which are summarized in the following table:

Product Name	Company	Description	Status
Mupirocin/ Bactroban®	Various (generic)	Antibiotic ointment/cream for topical application	Approved and in use worldwide
Noveon®	Nomir Medical	Uses the optical energy from two	Under development –

Product Name	Company	Description	Status
	Technologies, Inc., a private company located in Waltham, Massachusetts, USA	discrete near-infrared wavelengths at low power to target elimination of biofilm, bacterial and fungi. Treatments do not require photo-activation dyes or drugs.	in early clinical testing
(unnamed)	Valam Corp. a private company located in New York, New York, USA	Infrared light treatment for MRSA eradication	Under development – in early clinical testing
Naseptin Nasal Cream	Alliance Pharmaceuticals Ltd., a public company located in Chippenham, England	Combination of chlorhexidine and an antibiotic for nasal antibacterial effect	Approved in the United Kingdom

It should be noted that of the above, the mupirocin antibiotic is the only nasal MRSA decolonization therapy currently approved and in use worldwide. In addition, the naseptin nasal cream product is currently only approved for use and sold in the UK.

PETT System to prevent VAP

The Company is aware that C. R. Bard, Inc. a public company headquartered in Murray Hill, New Jersey, USA has developed a silver coated endotracheal tube that is intended to limit the incidence of VAP that is confirmed with microbiologic assessment. The silver serves as an antimicrobial agent that inhibits the formation of bacterial biofilm growth in an endotracheal tube. The silver coated endotracheal tube was approved by the FDA in 2007 with submission of clinical study data that demonstrated silver-coated tubes reduce the risk of developing VAP by 36%, in patients requiring endotracheal intubations, compared to uncoated tubes. As a result, even with the use of this technology, the incidence of VAP and its associated significant mortality remains an important issue. To the Company's knowledge, the sliver coated endotracheal tube has not gained wide clinical adoption.

Employees

The Company currently employs i) 9 persons in its Bothell, WA, office, primarily to conduct specialized research and development activities and to maintain the Company's quality systems; ii) 6 persons in its Vancouver office, 5 are primarily engaged in the management and administration of the Company's business activities and 1 is involved in regulatory affairs; and iii) 1 person in Barbados to manage its international activities. In addition, the Company engages from time to time various contractors and consultants to assist in the operations, scientific research, and development of its business. These employees and consultants have backgrounds and training in business, medicine and dentistry, scientific research and development, regulatory, marketing and sales, accounting and taxation, computers, digital electronics, and product design fields. The Company has reduced its number of employees from 27 to 16, with some employees working on a part time basis, over the last year primarily due to the need to conserve the Company's cash reserves given the continuing weakness in economic conditions, challenging capital markets, and business prospects during 2009. The Company will need to further reduce its number of staff if it is unable to raise further financing to continue its operations.

Business Objectives

Having developed Periowave™ and launched the product in 2006, the Company developed markets for Periowave™ in Canada and in certain countries in Europe during the period from 2006 to mid 2009. In June 2009, the Company completed the Dental Sale to PDT. In addition to the cash received during 2009 from the Dental Sale, the Company's expects to benefit from the sale in a variety of other ways in the future, including the gross margin the Company earns as continuing manufacturer of the Periowave™ product under the Manufacturing Agreement; the fees the Company receives pursuant to the terms of the Management Services Agreement; and the royalties the Company earns on sales of the Periowave™ product made by PDT. In addition, the Company is entitled to i) a net-receipts royalty if PDT enters into a licensing agreement for Periowave™ with a third party; ii) milestone payments based on PDT's sales; and, iii) in lieu of future royalties and milestone payments, a share, based on a sliding scale over time, of the sales proceeds if PDT sells the Dental Healthcare Business to a third party. Accordingly, one of the Company's near term business objectives is to continue to support PDT as PDT markets Periowave™ in Canada and Europe and as PDT seeks to expand its sales activities into new markets, principally the US. The Company expects there would be a substantial increase in future sales of Periowave™ if regulatory approval is obtained in the US. The Company has submitted a PMA application for Periowave™ with the FDA, the status of which is further described herein. The Company also expects that the planned introduction of a HHL model of Periowave™ would have a significant positive impact on future sales of Periowave™. The HHL is expected to also be of use in certain other PPD products that the Company plans to develop. In addition, subject to the successful completion of research and development programs and regulatory clearances, the Company intends to expand its product line by introducing additional products that utilize its PDD technology to treat certain other medical conditions, the initial principal applications being as outlined below.

During the next 12 months the Company's primary business objectives are to:

- raise additional financing to fund the Company's ongoing operations through the issuance of equity or debt, or through a strategic partnership, or through the sale of certain of the Company's assets;
- continue to support PDT in its marketing of Periowave™;
- obtain clearance for the introduction of Periowave™ in the US;
- complete the launch of the HHL, firstly for use in Periowave™;
- continue with the development of the Company's MRSAid™ and PETT System to prevent VAP Products;
- seek strategic partners to assist in the development of certain of the Company's proposed products;
- develop additional patentable intellectual property; and
- expand the applications of the Company's PDD technology.

RISK FACTORS

An investment in the Company involves a high degree of risk. Accordingly prospective investors should carefully consider the specific risk factors set out below, in addition to the other information contained in this AIF, before investing in the Common Shares.

Management considers the following risks to be the most significant for potential investors in the Company, but the risks listed do not necessarily comprise all those associated with an investment in the Company. Additional risks and uncertainties not currently known to management may also have an adverse effect on the Company's business.

If any of these risks actually occur, the Company's business, financial condition, capital resources, results, and/or future operations could be materially adversely affected. In such a case, the price of the Common Shares could decline and investors may lose all or part of their investment.

Potential investors are accordingly advised to consult with an appropriately qualified person, who specializes in advising on investments of this kind, before making any investment decisions. A prospective investor should consider carefully whether an investment in the Company is suitable in the light of his or her personal circumstances and the financial resources available to him or her.

Financial resources

The Company's future financial capital requirements will depend on numerous factors, including the speed at which the Company can bring products to market, gain market acceptance of the Company's products and its ability to expand its customer and distribution base for its products.

In the future, the Company will require additional funds and may attempt to raise additional funds through equity or debt financings, collaborative arrangements with commercial partners or from other sources. Any additional equity financing may dilute an investor's holdings in the Company. Any debt financing, if available, may require restrictions to be placed on the Company's future financing and operating activities. The Company may be unable to obtain additional financing on acceptable terms if market and economic conditions, the financial condition or operating performance of the Company, or investor sentiment, are unfavourable. If the Company is unable to raise further funds its ability to grow its business in the future may be hindered and the directors may be required to review or change the business strategies of the Company.

Based on the Company's current level of activities and its future plans, the Company needs to raise additional capital in the near term to continue with its planned activities. No assurances can be given that additional funding will be available or, if available, that it will be on terms that are acceptable to the Company. There is a risk that in early 2010 the Company could have insufficient cash to operate its business if it is unable to raise further funding. The Company believes the current challenging conditions in the capital marketplace will make it more difficult and time consuming than normal for companies at its stage of development to secure additional funding. Various other options are being pursued to raise funds, such as through strategic partnerships. In addition, the Company has and will continue to reduce its expenses and to defer capital outlays in order to extend the period it can operate utilizing its existing cash balances. However such reductions and deferrals may not be sufficient to allow the Company to continue in business unless it is able to obtain further cash to fund its operations. Should the Company be unable to obtain additional funding in a timely manner, it would have to severely curtail its activities and there can be no assurances that the Company will be able to continue in business.

Current Global Financial Condition

Although there has been some improvement during 2009 in financial markets, the global financial crisis that emerged in 2008 continues to affect economic conditions with high unemployment in many countries and volatility in financial and currency markets. Access to public financing for numerous companies continues to be challenging due to the negative impacts caused by these conditions. These factors may affect the ability of the Company to obtain equity or debt financing in the future and, if obtained, on terms favourable to the Company. If increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted and the trading price of the Common Shares could continue to be adversely affected.

Share price volatility

The share prices of publicly traded emerging companies, and particularly of biotechnology companies, can be highly volatile, especially during an economic slowdown, as was the case during 2009 and in early 2010. The price at which the Common Shares will be quoted, and the price which investors may be able to realize for their Common Shares, will be affected by a large number of factors, some which are specific to the Company and its operations, and others which relate to the biotechnology industry as a whole, as well as general market conditions and sentiment.

The Company's share price could fluctuate significantly in the future for the following reasons:

- future announcements concerning the Company or its competitors;
- the introduction of new products or changes in product pricing policies by the Company or its competitors;
- an acquisition or loss of significant business partners, customers, distributors and suppliers;
- regulatory developments;
- intellectual property developments;
- the commencement of material litigation against the Company; or
- fluctuations in the economy, financial markets, currency markets or general market conditions.

Limited operating history and history of losses

The Company's business was at the research and development stage for a significant portion of its history, with the first product, Periowave™, only recently being commercialized and sold commencing in Canada in April of 2006 and continued through 2009. Sales through distributors in selected countries of Europe were initiated in late 2006 and continued through 2009. In June of 2009 the Company sold its Dental Healthcare Business to PDT and thereafter all of the Company sales have been to PDT under the Manufacturing Agreement. The margins obtained on sales to PDT, as set out in the Manufacturing Agreement, are lower than the margins obtained on the Company's sales to distributors prior to the Dental Sale. Under the terms of the agreement with PDT, the Company is entitled to royalties of 5% on the sales of Periowave™ product made by PDT. To date sales of Periowave™ have been very limited and there can be no guarantee that sales efforts made by PDT will be successful. Pursuant to the terms of the Management Services Agreement with PDT, the Company is entitled to consulting fees of US$50,000 per month. Management intends to obtain regulatory approval for Periowave™ to be sold in other markets, primarily the Untied States; however there can be no assurances that the Company will be able to obtain regulatory clearance in those markets or that these efforts will be successful. In addition, except as otherwise disclosed in this AIF, management does not anticipate that the other proposed products which the Company is developing will be commercialized for some time. Regulatory clearance will be required prior to any sales of those products, and such clearance cannot be assured. In addition, the Company has a limited operating history, has generated limited revenues

to date from its business, and has a history of operating losses. From the Company's date of incorporation to December 31, 2009, the Company has an accumulated net deficit of approximately $58,682,000, substantially consisting of accumulated operating losses. There can be no assurances that the Company will become profitable in the future.

Competition

The business carried on by the Company is competitive and involves a high degree of risk. There can be no assurances that future sales revenues, if obtained, will be of sufficient amounts to render the Company profitable. There can be no assurances that the Company's proposed products can be developed on a cost effective basis or otherwise. Competitors, primarily in the US, Canada and Europe, are numerous and include pharmaceutical, chemical and biotechnology companies, many of which have substantially greater capital resources, marketing experience, research and development staff and facilities than the Company, and development of products by them could render the Company's proposed products obsolete. In addition, i) certain of the Company's proposed products use technology similar to products offered by other companies; and ii) other companies offer, or may offer in the future, products based on different technology that compete with the Company's proposed products. Furthermore, similar products offered by these competitors for use in other applications may be used by the purchaser for applications that infringe on the Company's intellectual property and it may be difficult for the Company to monitor and prevent such usage.

Smaller companies may also prove to be significant competitors, particularly through collaboration with larger pharmaceutical and established biotechnology companies. Many of these competitors have significant products that have been approved or are in development and these competitors operate large, well-funded discovery and development programs. Management cannot assure that the Company's competitors will not develop more effective or more affordable products, or achieve earlier patent protection, regulator clearances, or product commercialization than the Company.

Other companies may succeed in developing products earlier than the Company, obtaining government regulatory clearances for such products more rapidly than the Company, or in developing products that are more effective than the products the Company has developed or proposes to develop. While the Company will seek to expand its technological capabilities in order to remain competitive, there can be no assurance that research and development by others will not render the Company's products or technology obsolete or non-competitive.

Ability to agree upon contractual arrangements with key partners and customers

As the Company is at an early stage in the commercialization and marketing of its products, it is also at an early stage of developing relationships with key customers and partners, and there is no assurance that any relationships will result in revenue generating contracts for the Company. The Company's strategy includes subcontracting and forming partnerships or joint ventures to manufacture, market and distribute the Company's products. Although the Company has entered into distribution agreements in the past, there can be no guarantee that similar agreements for the products currently being developed will be concluded in the future.

The success of the Company will depend in part upon the agreements it is able to reach with key partners and customers and how these parties perform their obligations under such agreements, including the compliance of subcontractors with the stringent quality control specifications for manufacture of the Company's proposed products. There can be no assurance that the Company will be able to enter into satisfactory arrangements on favourable terms, or at all, in the future, or that these arrangements will be successful. The amount and timing of resources such third parties will devote to these activities may not be within the Company's control and

there can be no assurance that such parties will perform their obligations as expected. If the Company is not successful in forming partnerships or joint ventures for the manufacture, marketing and distribution of its future products, or if such arrangements are not satisfactorily performed, this could have an adverse effect on the Company's business, ability to generate revenues, operating results and financial condition.

Intellectual property, patent protection and confidentiality

The Company is actively engaged in the development of products and technology which must be protected by intellectual property rights. The Company currently holds a number of patents in relation to its products under development and the Company intends to seek additional patent and trade-mark protection for its intellectual property rights. The commercial success of the Company depends, in part, on its ability to obtain and maintain its patents, or licenses to patents, maintain trade secret protection and enforce the Company's rights against others. The Company may not be able to obtain patent protection for key elements of its technology. The patent positions of biotechnology companies are uncertain and involve complex legal and factual questions for which important legal issues are largely unresolved.

There can be no assurance that:

- patents held by the Company or obtained in the future will provide adequate protection or any competitive advantages;
- patent applications will result in the issuance of patents;
- additional products developed will be patentable;
- licenses obtained from third parties will not be terminated;
- patents will not be successfully challenged by any third parties; or
- the patents of others will not impede the Company's ability to commercialize its technology.

The Company cannot be certain that the steps taken to protect the intellectual property it uses will be adequate or that third parties will not infringe or misappropriate the Company's proprietary rights, or that such intellectual property does not infringe on the intellectual property rights of third parties. In particular, no assurance can be given that, for patents licensed or to be licensed by the Company, any grant of a patent will be sufficiently broad in its scope and territory of application to provide protection for the Company's or UCLB's technology or products incorporating such technology and to exclude competitors with similar technology. In addition, there can be no assurance that patent applications which are pending, or which the Company or UCLB will make in the future, will be successful or that patents granted or licensed to the Company or UCLB will not be successfully challenged.

There can be no assurance the Company can meaningfully protect its right to unpatented proprietary technology or that others will not independently develop substantially equivalent or superior technology. There can also be no assurance that the Company's trade secrets will not be independently acquired by others.

Certain of the Company's technology and trade secrets are regarded by the Company as confidential information. The Company endeavours to maintain the confidentiality of such information; however it may nonetheless be disclosed by employees or third parties and thereby become available for use by competitors.

Light treatment therapies are not new and are being studied extensively for possible uses in connection with many different kinds of health-related applications. As a consequence, further patents are likely to be issued in this area, some of which may relate to specific treatments that could impact on the Company's ability to develop other applications for the PDD technology.

Litigation may be necessary to enforce patents issued, assigned or licensed to the Company, and/or to determine the scope and validity of a third party's proprietary rights. The Company could incur substantial costs if it is required to defend itself in patent suits brought by third parties or if it initiates patent suits or participates in such suits brought against or initiated by UCLB, and there can be no assurance that funds or resources would be available to the Company in the event of any such litigation. Additionally, there can be no assurances that the Company or UCLB would prevail in any such action. An adverse outcome in litigation or other proceedings could subject the Company to significant liabilities, require disputed rights to be licensed from other parties or require the Company to cease using certain technology or products, any of which could have a material adverse effect on the business of the Company.

Regulatory clearance

The Company has received licenses from Health Canada, allowing Periowave™ to be sold for the treatment of periodontitis in adults as an adjunction to standard methods of care and for certain other indications in the oral cavity in Canada and a CE Mark allowing Periowave™ to be sold for the treatment of periodontitis and for certain other indications in the oral cavity in the European Union and certain other countries. The Company has also received licenses from Health Canada and a CE Mark for the use of Periowave™ in certain other applications outside the oral cavity as further described under "Regulatory Clearances and Strategy" in the "Describe the Business" section of this AIF. The Company plans to obtain regulatory approval for the sale of Periowave™ in other markets, primarily the US market, and to develop additional products using its PDD technology which at present have not received all the required regulatory clearances for commercial use and sale in any market. There is a risk that the Company may not be successful in obtaining regulatory clearance for the sale of Periowave™ in the US and in other markets or for the commercialization of its other proposed products.

In the US the Company's products are subject to regulation by, among other governmental entities, the FDA. The FDA regulates the introduction, manufacture, advertising, labeling, packaging, marketing, distribution, and recordkeeping for such products. In manufacturing and marketing its products for the US market, the Company must comply with FDA regulations and is subject to various other FDA recordkeeping requirements and to inspections by the FDA. The testing for and preparation of required applications can be expensive, and subsequent FDA review can be lengthy and uncertain. Moreover, clearance or approval, if granted, can include significant limitations on the indicated uses for which a product may be marketed. Failure to comply with applicable FDA regulations can result in fines, civil penalties, suspensions or revocation of clearances or approvals, recalls or product seizures, operating restrictions or criminal penalties. Delays in receipts of or failure to receive, clearances or approvals for the Company's products for which such clearances or approvals have not been obtained would adversely affect the marketing of such products in the US and could adversely affect the results of future operations.

The Company must obtain FDA or foreign regulatory approval or clearance for marketing the Company's new devices prior to their release. There are two primary means by which the FDA permits a medical device to be marketed. A manufacturer may seek clearance for the device by filing a 510(k) premarket notification with the FDA. To obtain such clearance, the 510(k) premarket notification must establish that the device is "substantially equivalent" to a device that has been legally marketed or was marketed before May 28, 1976. There are various types of 510ks some of which require the submission of clinical outcome evidence collected during a clinical trial. If a manufacturer cannot establish to the FDA's satisfaction that a new device is substantially equivalent to a legally marketed device, it will have to seek approval to market the device through the premarket approval application ("PMA") process. This process involves preclinical studies and clinical trials that demonstrate clinical utility. The process of completing clinical trials, submitting a PMA and obtaining FDA approval takes a number of years and requires the expenditure of substantial resources. In addition, there can be no assurance that the FDA will approve a PMA. The Company's export activities and

clinical investigations also are subject to the FDA's jurisdiction and enforcement.

The FDA may request the Company to perform additional clinical trials in support of the Company's PMA submission prior to the Periowave™ being cleared by the FDA for the market in the US. Although the Company has completed a number of trials, there can be no assurance that the trial results will be considered satisfactory by the FDA, that the results of any future clinical trails that the Company may conduct will be considered satisfactory by the FDA, or that Company will be able to complete any additional trials it is requested to conduct in a timely manner or at all. The FDA may also require the Company to provide long-term trial data which would add additional costs and delay the launch of Periowave™ in the US market. In addition, there may be other reasons that could cause a delay in the FDA clearance process.

The Company may be unable to meet product development milestones for the commercialization of the additional products it is developing. Although the Company sold its Dental Healthcare Business to PDT, as a result of the Company's ongoing relationship with PDT the success of the Company still depends to a significant extent on its ability to successfully obtain regulatory clearance for Periowave™ to be sold in other markets, primarily the US market, and to successfully commercialize additional products. While potential products may appear to be promising at various stages of development, they may nonetheless fail to meet regulatory clearance for a number of reasons, including:

- lack of sufficient treatment benefit or unacceptable safety issues that are identified during pre-clinical or clinical studies;
- the results from pre-clinical and early clinical studies not being predictive of results obtained in large scale studies or usage;
- the FDA or other regulatory authorities suspending the Company's clinical studies at any time if, among other reasons, it concludes that patients participating in such studies are being exposed to unacceptable health risks;
- unsatisfactory results after completion of clinical studies;
- revised legislation or regulatory clearance guidelines; and/or
- inability to develop manufacturing methods that are efficient, cost-effective and capable of meeting stringent regulatory standards.

The development, manufacture and sale of medical devices and human therapeutic products in Canada, the US and internationally is governed by a variety of statutes and regulations. These laws require, among other things:

- approval of manufacturing facilities and quality system practices;
- adequate and well-controlled research and testing of products in pre-clinical and clinical trials;
- review and approval of submissions containing manufacturing, pre-clinical and clinical data in order to obtain marketing approval based on establishing the safety and efficacy of the product for each use sought, including adhering to good manufacturing practices (GMP) during production and storage; and
- control of marketing activities, including advertising and labeling.

Product development and clearance within the regulatory framework to which the Company is subject can be uncertain, may take a number of years, and involves the commitment of substantial financial and human resources. In addition, there can be no assurance that the current regulatory framework will not change or that additional regulation will not arise at any stage of product development that may affect clearance, delay the submission or review of an application, or which may require additional expenditures by the Company. Any change in connection with the ability to market Periowave™ in Canada due to regulatory matters, in the

Company's ability to obtain regulatory clearance for Periowave™ without significant delay in other markets, primarily the US, or for the regulatory clearance of the Company's proposed additional products could have a material adverse effect on the Company's business, revenues, operating results and financial condition.

Results of clinical studies

The results of the Company's completed preclinical studies and clinical studies may not be indicative of the results of clinical studies in progress, of future clinical studies, or of the results achievable from the commercial use of the Company's products. A commitment of substantial resources to conduct time-consuming research, preclinical studies, and clinical studies will be required if the Company is to complete the development of its products or if the Company is required to perform additional clinical studies for regulatory purposes. Clinical studies of the Company's products require that the Company identify and enroll a large number of patients with the medical condition under investigation. The Company may not be able to enroll a sufficient number of appropriate patients to complete the clinical studies in a timely manner. If the Company experiences difficulty in enrolling a sufficient number of patients to conduct the clinical studies, the Company may need to delay or terminate ongoing clinical studies and will not accomplish objectives material to the Company's success, which in turn could affect the price of the Common Shares. Delays in planned patient enrolment, or lower than anticipated event rates in the Company's current or future clinical studies may result in increased costs, program delays, or both.

There can be no assurance that unacceptable toxicities or adverse side effects will not occur at any time in the course of pre-clinical studies or human clinical studies or during commercial use of the Company's products. The appearance of any such toxicities or adverse side effects could interrupt, limit, delay, or cause the Company to abort the sale or development of any of the Company's products. Furthermore, there can be no assurance that disease resistance or other unforeseen factors will not limit the effectiveness of the Company's products or its proposed products. Any products resulting from the Company's programs that are not expected to be successfully developed or made commercially available in the near term may not be successfully developed or made commercially available at all.

Management of growth

During the latter part of 2008 and the first half of 2009 the Company scaled back its operations and significantly reduced the number of staff it employs. In December 2009 the Company acquired additional PPD products through its acquisition of APT. Development of the additional products will place additional demands upon the Company's technical and administrative resources and depending on how those products are commercialized, may require the Company to hire a significant number of additional staff in the future, including marketing and sales staff. The Company is at a comparatively early stage of its development, and the ability of the Company to cope with these additional demands is uncertain. The failure of the Company to manage its growth appropriately would adversely affect the business, its financial condition and the future results of its operations.

Attraction and retention of key personnel

The Company's future success depends on its continuing ability to retain and attract highly skilled and qualified personnel, particularly in relation to research and development, and also in relation to management, production, sales, marketing and technical support. If the Company cannot recruit suitably qualified personnel as required, its performance may be materially adversely affected.

The success of the Company and its future operating results is dependent, in part, on the performance and continued service of certain key management, technical, research and other personnel. The loss of services of

any or all of these key people may have a material adverse effect on the Company's future business and prospects. There is no assurance that the Company can retain the services of such people, particularly since, as is common with biotechnology technicians, notice periods for termination of employment may be as short as 30 days.

Product liability and insurance

The use of the products manufactured by the Company or its proposed products may affect patients in different and possibly unintended ways. There can be no assurance that the products manufactured by the Company or its proposed products will not lead to claims being made against the Company which are not covered by insurance, or that will lead to the Company being unable to obtain or maintain insurance. Insurance may be so expensive as to materially affect the profitability of the Company. Additionally, insurance may be so expensive as for management to deem it too prohibitive for the Company to be able to carry on its business. The Company may choose in certain circumstances, not to carry insurance. As a result, it may be in the position of having no protection against claims brought against it.

Market growth

The biotechnology market is characterized by rapidly changing technology. Accordingly, it is difficult to predict the size of the market for the Company's technology or proposed products. There can be no assurance that the Company's target markets within the industry will adopt the Company's technology for integration with their products and services, or that the Company will be successful in independently establishing a market for its technology or products.

DIVIDENDS

The Company has not paid any dividends on its Common Shares since inception on September 9, 1996. The Company may pay dividends on its Common Shares in the future if it generates profits. Any decision to pay dividends on Common Shares in the future will be made by the Board of Directors on the basis of the earnings, financial requirements and other conditions existing at such time.

DESCRIPTION OF CAPITAL STRUCTURE

The authorized share capital of the Company consists of an unlimited number of Common Shares without par value. As at March 24, 2010, there were 110,548,457 Common Shares issued and outstanding. The holders of the Common Shares are entitled to receive notice of and to attend and vote at all meetings of the shareholders of the Company and each Common Share confers the right to one vote in person or by proxy at all meetings of the shareholders of the Company. The holders of the Common Shares, subject to the prior rights, if any, of the holders of any other class of shares of the Company, are entitled to receive such dividends in any financial period as the board of directors of the Company may by resolution determine. In the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, the holders of the Common Shares are entitled to receive, subject to the prior rights, if any, of the holders of any other class of shares of the Company, the remaining property and assets of the Company.

The following table sets forth the share purchase warrants outstanding as at March 24, 2010.

Number of Warrants/Common Shares Issuable	Expiry Date	Exercise Price ($)
250,000	June 2, 2011	0.12
8,395,275	June 26, 2011	0.12
8,000,000	December 23, 2010	0.05
16,645,275		

The Company has a stock option plan pursuant to which the directors of the Company are authorized to grant options to directors, officers, employees and consultants of the Company and its subsidiaries for up to 10,496,902 common shares (being 9.4% of the issued and outstanding common shares as at March 24, 2010).

The following table sets forth the incentive stock options outstanding as at March 24, 2010.

Number of Options/Common Shares Issuable	Expiry Date	Exercise Price ($)
160,000	August 15, 2010	$1.70
65,000	February 13, 2011	$1.62
75,000	March 10, 2011	$1.90
100,000	May 18, 2011	$1.85
192,000	December 6, 2011	$1.28
253,000	November 15, 2012	$1.21
1,750,000	March 28, 2013	$1.00
430,000	June 13, 2013	$0.90
1,395,000	February 4, 2014	$0.10
5,275,000	November 18, 2014	0.06
9,695,000		

In connection with the APT Acquisition, the Company has an obligation to issue in aggregate up to 11,187,105 common shares on the attainment of certain regulatory milestones as described in "Describe the Business" – "Share Purchase Agreement with APT".

MARKET FOR SECURITIES

Trading Price and Volume

The Common Shares traded during the year ended December 31, 2009 on both the TSX and AIM under the symbol "OBP". The following table provides a summary by month of the Company's trading history on the TSX during the year ended December 31, 2009 and from January 1, 2010 to March 24, 2010:

Month	High $	Low $	Volume
March 1 to 24, 2010	0.14	0.05	7,412,425
Feb 2010	0.065	0.045	491,420
Jan 2010	0.065	0.045	1,106,314
Dec 2009	0.085	0.02	11,907,561
Nov 2009	0.07	0.04	937,250
Oct 2009	0.08	0.06	1,544,828
Sep 2009	0.095	0.05	1,526,817
Aug 2009	0.135	0.065	432,004
Jul 2009	0.15	0.09	251,581
Jun 2009	0.165	0.10	359,383
May 2009	0.15	0.095	1,876,583
Apr 2009	0.125	0.085	528,740
Mar 2009	0.11	0.05	469,765
Feb 2009	0.11	0.075	75,100
Jan 2009	0.185	0.055	512,936

DIRECTORS AND OFFICERS

Name, Occupation and Security Holding

The name, province of residence, position or office held with the Company and principal occupation during the past five years of each person who is a director and executive officer of the Company as at December 31, 2009 and as the date of this AIF are described below:

Name and Address	Office or Position Held	Date of Appointment	Principal Occupation during past five years
Terry Holland [1,2,3] BC, Canada	Independent Director	April 2004	Jun/04 to present – President, Krystal Financial. Jul/98 to Jun/04 – President & CEO, Trimin Capital Corp.
Carolyn Cross [2,3] BC, Canada	Chairman and CEO President and CEO Director	January 2009 February 2005 December 2004	Jan/09 to present- Chairman and CEO of the Company Feb/05 to Jan/09 – President and CEO of the Company Feb/98 to Jan/05 – President & CEO, Courthill Capital Inc.
Colin Watt [1,2,3] BC, Canada	Independent Director	April 2003	Feb/97 to present – President, Squall Capital Corp.
Michael Crane York , Pennsylvania, USA	Director	May 2006	Oct/99 to Present – President, Michael R. Crane & Associates

Name and Address	Office or Position Held	Date of Appointment	Principal Occupation during past five years
Margaret Shaw[(1)] Ontario, Canada	Independent Director	May 2009	Nov/05 to Present – Retired Jun/90 to Nov/05 – Vice President AGF Management Ltd.
Dr. Merrill Biel Minnesota, USA	Director	December 2009	Sep/87 to present – Physician
Dr. Nicholas Loebel Washington State, USA	President and Chief Technology Officer	January 2009 March 2004	Jan/09 to present – President of the Company Apr/04 to present – CTO of the Company Sep/04 to present – President ORL; May/02 to Mar/03 – CTO, Ondine Biopharma Corporation (Delaware)
Thomas Dawson Washington State, USA	Chief Operating Officer	January 2009	Jan/09 to present - COO of the Company Dec/06 to present – Vice-President and COO of ORL Oct/05 to Dec/06 - VP Operations, DUX Area, Inc. Sept/00 to Aug/05 – President, Kistler-Morse Corporation
William Harper BC, Canada	Chief Financial Officer Vice-President Finance Corporate Secretary	August 2006 July 2005 August 2005	Aug/06 to present - Chief Financial Officer of the Company Jul/05 to present - Vice-President Finance Aug/05 to present - Corporate Secretary of the Company Mar/02 to 06/05 – Self employed financial consultant and accountant to public companies

(1) Member of the audit committee
(2) Member of the compensation committee
(3) Member of the corporate governance committee

Directors' Terms

At each annual general meeting of the Company all Directors shall retire and the shareholders shall elect a Board of Directors. A retiring Director shall be eligible for re-election.

Control of Securities

The directors and executive officers of the Company, together with members of their immediate family, as a group beneficially owned or controlled or directed, directly or indirectly, an aggregate of 30,166,203 Common Shares as at March 24, 2010 representing approximately 26.92% of the issued and outstanding Common Shares. In addition, as at March 24, 2008 the directors and executive officers of the Company as a group held i) incentive stock options for the purchase of up to an aggregate of 5,580,000 Common Shares, which options are exercisable at between $0.06 and $1.85 per Common Share and expire between August 15, 2010 and November 18, 201; and ii) common share purchase warrants for the purchase of up to an aggregate of 4,239,091 Common Shares, which warrants are exercisable at between $0.05 and $0.15 per Common Share and expire between December 23, 2010 and June 26, 2011.

Principal Occupation of Directors and Executive Officers

All of the directors and executive officers have as their principal occupation their position with the Company except as follows:

Terry M. Holland – Independent Director

Mr. Holland is a Chartered Accountant and has been the President of Krystal Financial Corp. since June 2004. Through Krystal Financial Corp., Mr. Holland provides ongoing strategic and financial consulting services to a number of public and private businesses.

Colin Watt - Independent Director

Mr. Watt is the President of Squall Capital Corp., a private Vancouver based company which specializes in financing, restructuring and providing management services to early stage public companies.

Margaret Shaw – Independent Director

Ms. Margaret Shaw is retired. Previously she was a vice president of AGF Management Ltd.

Michael Crane – Director

Mr. Crane is President of Michael R. Crane & Associates, LLC, a dental industry consulting firm, which he founded in 1999, that provides assistance to companies in the areas of divestiture and acquisitions, technology licensing, strategic alliances, global expansion and business planning.

Dr. Merrill Biel – Director

Dr. Biel is a practicing Otolaryngologist and a partner specializing in Head and Neck Surgical Oncology at Ear, Nose and Throat Specialty Care of Minnesota. He is an Adjunct Professor of Otolaryngology, Surgery and Family Practice at the University of Minnesota and the Medical Director of Head and Neck Oncology at the Virginia Piper Cancer Institute at Abbott-Northwestern Hospital in Minneapolis.

Conflicts of Interest

Certain of the Company's directors and officers serve or may agree to serve as directors or officers of other reporting companies or have significant shareholdings in other companies which are active in the biotechnology field. The directors of the Company may in such instance have a conflict of interest. Under the laws of the Province of British Columbia, the directors of the Company are required to act honestly, in good faith and in the best interests of the Company.

AUDIT COMMITTEE INFORMATION

Audit Committee Charter

The Company's audit committee has a charter (the "Audit Committee Charter") in the form attached to this AIF as Schedule "A".

Composition of the Audit Committee

The following are the members of the Company's audit committee as at December 31, 2009:

Terry Holland (Chairperson)	Independent [1]	Financially literate [1]
Colin Watt	Independent [1]	Financially literate [1]
Margaret Shaw	Independent [1]	Financially literate [1]

Notes:
1. As defined by MI 52-110.

Relevant Education and Experience

The following is a description of the education and experience of each audit committee member that is relevant to the performance of his or her responsibilities as an audit committee member:

Terry M. Holland - Chairperson (Age 54)

Terry Holland is the Chairman of the Audit Committee. He is a Chartered Accountant and has been the President of Krystal Financial Corp. since June 2004. Through Krystal Financial Corp., Terry Holland provides ongoing strategic and financial consulting services to a number of public and private businesses. Up to June 2004 he was the President and CEO of Trimin Capital Corp., a Vancouver based private equity firm. Over the last 22 years, Mr. Holland has had extensive experience in the acquisition and financing of businesses in a wide variety of sectors, including resource, real estate, manufacturing and technology. During this time, he has worked closely with senior management of these businesses, providing both financial and strategic support. Mr. Holland is an active member and past chairman of the British Columbia Chapter of the Young Presidents' Organization and is the Chairman of the Boys and Girls Clubs of Greater Vancouver Foundation. He also serves as a director of two public companies, Burntsand Inc. and Hardwoods Distribution Income Fund. Mr. Holland holds a Bachelor of Commerce degree from the University of British Columbia.

Colin Watt - Director (Age 38)

Mr. Watt is the President of Squall Capital Corp., a private Canadian based company which specializes in financing, restructuring and providing management services to early stage public companies. Mr. Watt is a director and officer of a number of early stage public companies in Canada. Mr. Watt holds a B.Comm. (Finance) from the University of British Columbia.

Margaret Shaw – Director (Age 57)

Ms. Shaw is a Chartered Financial Analyst. She has over 30 years of experience in the capital markets. Ms. Shaw established and managed a department responsible for the measuring and monitoring of performance analytics, and adherence to investment protocols at AGF Fund Inc., one of the largest independent mutual

funds in Canada. Previously she had managed institutional funds focusing on small and mid-sized emerging technologies for AGF and for CIBC.

External Auditor Services Fees (By Category)

The aggregate fees, including expenses, billed or billable by the Company's external auditors in connection with the year ended December 31, 2009 and 2008 are as follows:

Period Ended	Audit Fees	Audit Related Fees	Tax Fees	All Other Fees
Dec 31, 2009	$64,000	-	-	-
Dec 31, 2008	$129,340[(1)]	$11,150	-	-

Notes:

1. Includes charges of $54,635 for reviews of the Company's unaudited interim financial statements issued during the year.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

The Company is not a party to any legal proceedings and is not aware of any such proceedings known to be contemplated. In the Company's most recently completed financial year no penalties or sanctions were imposed on the Company by a court or by a securities regulatory authority relating to securities legislation or to other legislation and the Company did not enter into any settlement agreements with those parties relating to securities legislation.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

No director, senior officer or principal shareholder of the Company, or any associate or affiliate of the foregoing, has had any material interest, direct or indirect, in any transaction within the three most recently completed financial years or during the current financial year prior to March 24, 2010 that has materially affected or is reasonably expected to materially affect the Company, except as described below:

1. In connection with a non-brokered private placement that closed in two tranches during February 2009, Carolyn Cross, Chairman and CEO of the Company, purchased an aggregate of 1,852,334 Common Shares for $111,140 ($0.06 per share).

2. In April 2009, Carolyn Cross loaned $400,000 to the Company on an interest free basis. The loan was repaid in June 2009.

3. In connection with a non-brokered private placement that closed in June 2009, Carolyn Cross purchased 1,959,091 units $215,500 ($0.11 per unit). Each unit consists of one common share of the Company and one share purchase warrant entitling the holder to acquire one common share of the Company at an exercise price of $0.15 until June 26, 2011.

4. In connection with a non-brokered private placement that closed in December 2009, Carolyn Cross purchased 1,500,000 units for $75,000 ($0.05 per unit). Each unit consists of one common share of the Company and one share purchase warrant entitling the holder to acquire one common share of the Company at an exercise price of $0.05 until December 23, 2010.

TRANSFER AGENTS AND REGISTRARS

The Company's transfer agent and registrar is Computershare Trust Company of Canada, which has offices in Vancouver, British Columbia; Toronto, Ontario; and in other cities across Canada.

MATERIAL CONTRACTS

There are no material contracts of the Company that were entered into by the Company within the most recently completed financial year or were entered into before the most recently completed financial year and after January 1, 2002 and which are still in effect, other than contracts disclosed elsewhere in this AIF or entered into in the ordinary course of business that are not otherwise required to be filed on SEDAR.

EXPERTS

Ernst & Young LLP ("E&Y") at 700 West Georgia Street, 23rd Floor, Vancouver, British Columbia, V7Y 1C7, are the independent auditors for the Company. E&Y audited the consolidated financial statements of the Company for the years ended December 31, 2009 and 2008 and their report on those financial statements has been filed on SEDAR.

E&Y are independent of the Company in accordance with the auditors' rules of professional conduct of the Institute of Chartered Accountants of British Columbia.

ADDITIONAL INFORMATION

Additional information relating to the Company may be found on SEDAR at www.sedar.com.

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities, and securities authorized for issuance under equity compensation plans, where applicable, is contained in the Company's Information Circular for its most recent annual general meeting of securityholders that involved the election of directors.

Additional financial information is provided in the Company's consolidated financial statements and management's discussion and analysis for the year ended December 31, 2009.

SCHEDULE "A"

AUDIT COMMITTEE CHARTER

OF

ONDINE BIOPHARMA CORPORATION
(the "Company")

Dated
July 20, 2004 (as amended on May 11, 2006)

Committee's Purpose and Mandate

Mandate and organization

This charter governs the operations of the Audit Committee of the Company. The Board of Directors shall appoint an Audit Committee (the "Committee") of at least three members, all of which must be independent directors, and shall designate one member as a chairperson or delegate the authority to designate a chairperson to the Committee. For the purposes hereof, members shall be considered independent as long as they satisfy the independence requirements for Board Members as set forth in Multilateral Instrument 52-110 – *"Audit Committees"*. Each member of the Committee shall be financially literate, or become financially literate within a reasonable period of time. For the purposes of this section, a director shall be deemed to be "financially literate" if he or she has the ability to read and understand a set of 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 Company's financial statements.

The Committee shall meet at least quarterly. The Committee shall meet separately and periodically with management and the external auditor. The Committee shall report regularly to the Board of Directors with respect to its activities.

Purpose

The purpose of the Committee shall be to:

- Provide assistance to the Board of Directors in fulfilling their oversight responsibility to the shareholders, potential shareholders, the investment community, and others relating to: (i) the integrity of the Company's financial statements; (ii) the Company's compliance with legal and regulatory requirements; (iii) the external auditor's qualifications and independence; (iv) and the performance of the Company's external auditor;

In fulfilling its purpose, it is the responsibility of the Committee to maintain free and open communication between the Committee, external auditor and management of the Company, and to determine that all parties are aware of their responsibilities.

Authority of the Audit Committee

The Committee has the authority to: (i) engage independent counsel and other advisors as it determines necessary to carry out its duties; (ii) set and pay the compensation for any advisors employed by the Committee; and, (iii) communicate directly with the internal and external auditors of the Company.

Duties and Responsibilities

The Committee has the responsibilities and powers set forth in this Charter. Management is responsible for the preparation, presentation, and integrity of the Company's financial statements, for the appropriateness of the accounting principles and reporting policies that are used by the Company and for implementing and maintaining internal control over financial reporting. The external auditor is responsible for auditing the Company's financial statements and for reviewing the Company's unaudited interim financial statements.

The Committee, in carrying out its responsibilities, believes its policies and procedures should remain flexible, in order to best react to changing conditions and circumstances. The Committee will take appropriate actions to set the overall corporate "tone" for quality financial reporting, sound business risk practices, and ethical behavior.

The following shall be the principal duties and responsibilities of the Committee. These are set forth as a guide with the understanding that the Committee may supplement them as appropriate.

- The Committee shall recommend to the Board of Directors: (i) the external auditor to be nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Company; and, (ii) the compensation of the external auditor.

- The Committee shall be directly responsible for overseeing the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review, or attest services for the Company, including the resolution of disagreements between management and the external auditor regarding financial reporting. The external auditor shall report directly to the Committee.

- At least annually, the Committee shall obtain and review a report by the external auditor describing: (i) the firm's internal quality control procedure; (ii) any material issues raised by the most recent internal quality control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and (iii) all relationships between the external auditor and the Company (to assess the auditors' independence).

- After reviewing the foregoing report and the external auditor's work throughout the year, the Committee shall evaluate the auditors' qualifications, performance and independence. Such evaluation should include the review and evaluation of the lead partner of the external auditor and take into account the opinions of management.

- The Committee shall determine that the external auditor has a process in place to address the rotation of the lead audit partner and other audit partners serving the account as required under the independence rules.

- The Committee shall pre-approve all audit and non-audit services provided by the external auditor to the Company or its subsidiaries and shall not engage the external auditor to perform non-audit services proscribed by law or regulation. The Committee may delegate pre-approval authority to a member of the Audit Committee. The decisions of any Committee member to whom pre-approval authority is delegated must be presented to the full Committee at its next scheduled meeting.

- The Committee shall discuss with the external auditor the overall scope and plans for their respective audits, including the adequacy of staffing and budget or compensation.

- The Committee shall regularly review with the external auditor any audit problems or difficulties encountered during the course of the audit work, including any restrictions on the scope of the external auditor's activities or access to requested information, and management's response. The Committee should review any accounting adjustments that were noted or proposed by the external auditor but were "passed" (as immaterial or otherwise); any communications between the audit team and the external auditor's national office relating to problems or difficulties encountered with respect to significant auditing or accounting issues; and any "management" or "internal control" letter issued, or proposed to be issued, by the external auditor to the Company.

- The Committee shall review and discuss the Company's quarterly financial statements, including Management's Discussion and Analysis of Financial Condition and Results of Operations, with management and the external auditor prior to the filing of the Company's Quarterly Report. Also, the Committee shall discuss the results of the quarterly review and any other matters required to be communicated to the Committee by the external auditor under generally accepted auditing standards.

- The Committee shall review and discuss the annual audited financial statements, including Management's Discussion and Analysis of Financial Condition and Results of Operations, with management and the external auditor prior to the filing of the Company's Annual Report and Annual Information Form. The Committee's review of the financial statements shall include: (i) major issues regarding accounting principles and financial statement presentations, including any significant changes in the company's selection or application of accounting principles, and major issues as to the adequacy of the company's internal controls and any specific remedial actions adopted in light of material control deficiencies (ii) discussions with management and the external auditor regarding significant financial reporting issues and judgments made in connection with the preparation of the financial statements and the reasonableness of those judgments; (iii) consideration of the effect of regulatory accounting initiatives, as well as off-balance sheet structures on the financial statements; (iv) consideration of the judgment of both management and the external auditor about the quality, not just the acceptability of accounting principles; and (v) the clarity of the disclosures in the financial statements. Also, the Committee shall discuss the results of the annual audit and any other matters required to be communicated to the Committee by the external auditor under professional standards.

- The Committee shall receive and review a report from the external auditor, prior to the filing of the Company's Annual Report, on all critical accounting policies and practices of the Company; all material alternative treatments of financial information within generally accepted accounting

principles that have been discussed with management, including the ramifications of the use of such alternative treatments and disclosures and the treatment preferred by the external auditor; and other material written communications between the external auditor and management.

- The Committee shall review and approve all related party transactions.

- The Committee shall review and discuss with management the Company's financial statements, Management Discussion and Analysis and annual and interim earnings press releases before the Company publicly discloses this information

- The Committee shall review financial information and earnings guidance provided to analysts and rating agencies.

- The Committee shall review management's assessment of the effectiveness of internal control over financial reporting as of the end of the most recent fiscal year.

- The Committee shall assess, annually or periodically, as appropriate, the adequacy of procedures in place for reviewing all public disclosure documents of the Company containing audited or unaudited financial information.

- The Committee shall discuss with management and the external auditor the adequacy and effectiveness of internal control over financial reporting, including any significant deficiencies or material weaknesses identified by management of the Company in connection with its required quarterly certifications, as applicable. In addition, the Committee shall discuss with management and the external auditor any significant changes in internal control over financial reporting that are disclosed, or considered for disclosures, in the Company's periodic filings.

- The Committee shall review the Company's compliance systems with respect to legal and regulatory requirements and review the Company's code of conduct and programs to monitor compliance with such programs. The Committee shall receive corporate attorneys' reports of evidence of a material violation of securities laws or breaches of fiduciary duty.

- The Committee shall discuss the Company's policies with respect to risk assessment and risk management, including the risk of fraud. The Committee also shall discuss the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures.

- The Committee shall review and approve the Company's hiring policies regarding partners, employees, and former partners and employees of the present and former external auditors of the Company.

- The Committee shall establish and periodically review procedures for: (i) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and, (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

- The Committee shall determine the appropriate funding needed by the Committee for payment of: (1) compensation to the external auditor engaged for the purpose of preparing or issuing an audit report or performing other audit, review, or attest services for the Company; (2)

compensation to any advisers employed by the Committee; and (3) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

- The Committee shall perform an evaluation of its performance at least annually to determine whether it is functioning effectively.

The Committee shall review and reassess the charter at least annually and obtain the approval of the board of directors.