



FOR IMMEDIATE RELEASE

February 13, 2006

## Philom Bios Announces First Quarter Results

SASKATOON, SK — Philom Bios Inc. is pleased to report its results for the three months ended December 31, 2005.

### Highlights:

- Financial

| (\$000's, except earnings per share) | 1st Quarter |           | Year to Date |           |
|--------------------------------------|-------------|-----------|--------------|-----------|
|                                      | 2006        | 2005      | 2006         | 2005      |
| Sales                                | 223         | -         | 223          | -         |
| Net Loss                             | (1,208)     | (1,262)   | (1,208)      | (1,262)   |
| Net loss per Share                   | (\$ 0.34)   | (\$ 0.37) | (\$ 0.34)    | (\$ 0.37) |

- Net losses of \$1.2 million are representative of normal outcomes for first quarter operations due to nature of our business cycle.
- Cash outflows in the quarter reflect normal build up of inventories and completion of facility improvements, offset by receipt of long-term financing proceeds.

As noted above, first quarter losses of \$1.2 million are representative of normal outcomes as the Company incurs ongoing operating costs and builds up its inventories during this time in preparation for a spring sales season. Net operating costs for the quarter total \$1.7 million (2005 - \$1.9 million) with the decline from the prior year reflecting some timing differences on certain marketing and research initiatives and reduced legal fees. Subsequent to the quarter, the Company celebrated the grand opening of its new facility in January 2006. In addition, the Company announced that it has been chosen as one of Canada's 50 Best Managed Companies for 2005.

President/CEO Calvin Sonntag comments, "We're pleased with our first quarter. While remaining ever cautious about prediction of final outcomes this early in our business cycle, initial industry feedback and customer support for our early sales incentive programs gives us confidence of achieving our objectives for 2006. We are also very pleased with the operational efficiencies already being realized in our new facility."

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Philom Bios is a world leading Inoculant Company with over 70 employees across North America in a wide range of research, manufacturing, marketing, and management positions. Headquartered in Saskatoon, SK, Philom Bios is a Canadian public company serving the needs of farmers with high-value inoculants. Philom Bios has a 20+ year commitment to farmers through a dynamic partnership with distributors and leading retailers.

For More Information:

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## **Management Discussion and Analysis**

### **For the First Quarter ended December 31, 2005**

### **Information available up to February 10, 2006**

The Management Discussion and Analysis is intended to explain the Company's operating results and financial position for the 2006 fiscal year to date compared with those for the prior year. Additionally, it provides the reader with an outlook on future trends and risks or other factors that may affect business operations with information available up to the date of release. This discussion and analysis should be read in conjunction with the 2005 Annual Report and the consolidated financial statements and accompanying notes for the three months ended December 31, 2005 which have been reviewed and approved by the Company's Audit Committee. Additional information on the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Business Overview**

Philom Bios Inc. manufactures and distributes high value inoculants and distributes certain complementary third party products. The Company's products are sold through leading agricultural distributors and retailers in key regions of North America, and by licensees in other countries. Inoculants are naturally occurring micro-organisms derived from the soil, which are applied to, or with, the seed at the time of seeding/planting to enhance plant growth by accessing important nutrients like nitrogen and phosphate. Inoculants are used on a wide range of agricultural crops, rewarding customers with enhanced fertility efficiency, increased yield and improved profitability.

### **Summary of Operations**

#### *Sales and Earnings*

Due to the seasonal nature of the business, the Company generally realizes few, if any, sales in the first quarter of operations. However, the Company did record early season sales of \$0.2 million for certain distributed products, which is a welcome start to our sales season.

#### *Cost of Sales and Gross Margins*

Cost of sales reflects the cost of distributed product sales plus certain early season production variances which are within acceptable ranges.

#### *Operating Costs*

Total operating costs for the three months ended December 31, 2005 amounted to \$1.7 million (2005 – 1.9 million). The decline in expenses is primarily attributable to reduced legal fees and timing of certain expenditures in marketing and research initiatives over the prior year to date.

## Selected Financial Information

A summary of the most recent eight quarters of sales and earnings is included in the following table:

### Summary of Quarterly Results

| (\$000's, except earnings per share)      | M-04    | J-04    | S-04     | D-04     | M-05    | J-05    | S-05     | D-05     |
|---|---------|---------|----------|----------|---------|---------|----------|----------|
| Sales                                     | 5,278   | 6,911   | (67)     | -        | 6,820   | 7,435   | 175      | 223      |
| Earnings (loss) before extraordinary item | 1,532   | 2,285   | (1,071)  | (1,262)  | 2,426   | 1,576   | (694)    | (1,208)  |
| Earnings (loss)                           | 1,532   | 2,285   | (1,071)  | (1,262)  | 2,426   | 386     | (834)    | (1,208)  |
| Basic Earnings (loss) per share:          |         |         |          |          |         |         |          |          |
| Before extraordinary item                 | \$ 0.47 | \$ 0.70 | \$(0.33) | \$(0.37) | \$ 0.70 | \$ 0.45 | \$(0.19) | \$(0.34) |
| Net Earnings (loss)                       | \$ 0.47 | \$ 0.70 | \$(0.33) | \$(0.37) | \$ 0.70 | \$ 0.11 | \$(0.23) | \$(0.34) |

## Liquidity and Capital Resources

Due to the nature of our business cycle, operating cash flows declined in the quarter by \$4.2 million (2005 - \$3.1 million) as the Company invested in the build up of inventories and incurred normal period operating costs. The increased outlay on a year over year basis reflects a growing investment in inventories in anticipation of sales season requirements and pay down of certain liabilities outstanding at the most recent year end. In addition, first quarter outlays include new capital expenditures of \$1.1 million, primarily final construction costs of the new office and laboratory expansion. In offset, the Company drew \$2.3 million on its long term debt credit facility in support of the entire building improvements project.

The Company also encourages early commitment to its products through its early order and payment incentive programs. These early cash inflows, received subsequent to the quarter, have replenished cash reserves to normal operating levels and eliminated the bank loan outstanding at the end of the December.

## Related Party Transactions

During the quarter, the Company incurred fees for consulting services provided by a Director and acquired certain products for resale from a Company controlled by a Director. These transactions are in the normal course of operations and are transacted at market value.

## Capital Structure

The Company's authorized share capital consists of an unlimited number of a single class of common shares issued without par value. As at the date of this report there are 3,529,563 shares issued (2005 - 3,422,031). The following table shows a comparative summary of the transactions in the number of shares and the value of capital stock for the quarter and year to date.

### Capital Stock and Share Transactions:

| Share Transactions:                    | 1 <sup>st</sup> Quarter |           | Year to Date |           |
|--|-------------------------|-----------|--------------|-----------|
|  | 2006                    | 2005      | 2006         | 2005      |
| # of shares outstanding                |                         |           |              |           |
| Beginning of period                    | 3,529,563               | 3,415,761 | 3,529,563    | 3,415,761 |
| Issued pursuant to exercise of options | -                       | 6,270     | -            | 6,270     |
| End of period                          | 3,529,563               | 3,422,031 | 3,529,563    | 3,422,031 |

| Capital Stock Transactions:     | 1 <sup>st</sup> Quarter |       | Year to Date |       |
|---------------------------------|-------------------------|-------|--------------|-------|
|                                 | 2006                    | 2005  | 2006         | 2005  |
| Capital stock (\$000's)         |                         |       |              |       |
| Beginning of period             | 4,079                   | 5,662 | 4,079        | 5,662 |
| Proceeds on exercise of options | -                       | 10    | -            | 10    |
| End of period                   | 4,079                   | 5,672 | 4,079        | 5,672 |

### Option Transactions:

The Company has an Equity Compensation plan which provides for a grant of options to directors, management, and other employees. There were no transactions in options in the quarter. As at the date of this report 177,940 options remain outstanding.

### Outlook Update

Early market reports on seeding intentions and other direct customer and industry feedback support the Company's view that North American pulse markets are likely to be stable or increase modestly in size. In addition, successful trial results and market interest for our products support our expectation of growing volumes in the corn and soybean inoculant markets. However, at this point in the business cycle it is too early to provide a meaningful earnings forecast since in-season results can vary significantly from these early signals.

### Warning regarding Forward Looking Statements

The Management Discussion and Analysis contains forward looking statements, particularly in the Outlook Update, above, which involve risks and uncertainties. A number of factors could cause actual results to differ materially from those in the forward-looking statements, including but not limited to: economic and growing conditions in North American agriculture, changes in competitive pressures, government policy changes particularly with respect to regulatory approvals, changes in capital markets, and the consequent effect on working capital supply, unforeseen barriers in new process and product systems, changes in shareholders or the capital structure of the Company and changes in currency and exchange rates.

Securities laws require the Company to update these forward looking statements as needed to prevent them from being rendered untrue by subsequent events. The Company will do so each quarter in its Management Discussion & Analysis, and also issues press releases from time to time as material events occur, which may relate to the forward looking statements in our Outlook Update. Shareholders and other interested persons are cautioned to monitor the Company's filings at [www.sedar.com](http://www.sedar.com) and/or to add your name to our supplemental mailing list in order to receive these documents directly, by e-mail, fax or by direct mail. The Company does not undertake any other or further obligation to publicly update or revise any forward-looking statements.



## **CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE MONTHS ENDED DECEMBER 31, 2005**

**(Unaudited)**

### **Notice to Reader**

Management has compiled the unaudited interim financial information of Philom Bios Inc. consisting of the Interim Consolidated Balance Sheet as at December 31, 2005 and the Consolidated Statement of Earnings and Retained Earnings and Cash Flows for the three months ended December 31, 2005. All amounts are stated in Canadian Dollars. No accounting firm has reviewed or audited this interim financial information.



**Philom Bios Inc.**  
**Consolidated Balance Sheet**  
**as at December 31, 2005**  
**(unaudited)**  
**(000's)**

|  | As At               |                     |                                   |
|--|---------------------|---------------------|-----------------------------------|
|  | December 31<br>2005 | December 31<br>2004 | September 30<br>2005<br>(audited) |
| <b>Current Assets</b>                                  |                     |                     |                                   |
| Cash and short-term deposits                           | \$ 1,688            | \$ -                | \$ 3,220                          |
| Accounts receivable                                    | 496                 | 105                 | 407                               |
| Inventory (Note 5)                                     | 3,665               | 3,073               | 1,981                             |
| Prepays and deposits                                   | 150                 | 164                 | 113                               |
| Income tax credit recoverable                          | 1,528               | 621                 | 1,287                             |
|  | <u>7,527</u>        | <u>3,963</u>        | <u>7,008</u>                      |
| <b>Future Tax Asset</b>                                |                     |                     |                                   |
|  | 43                  | -                   | -                                 |
| <b>Property, Plant and Equipment</b>                   | 7,303               | 4,351               | 6,351                             |
| <b>Patents and Trademarks, net of amortization</b>     | 129                 | 118                 | 127                               |
|  | <u>7,475</u>        | <u>4,469</u>        | <u>6,478</u>                      |
|  | <u>\$ 15,002</u>    | <u>\$ 8,432</u>     | <u>\$ 13,486</u>                  |
| <b>Current Liabilities</b>                             |                     |                     |                                   |
| Bank loan (Note 6)                                     | \$ 1,611            | \$ 658              | \$ -                              |
| Accounts payable and accrued charges                   | 2,725               | 1,202               | 3,447                             |
| Deferred development assistance                        | -                   | 106                 | -                                 |
| Current portion long term debt                         | 462                 | 57                  | 234                               |
|  | <u>4,798</u>        | <u>2,023</u>        | <u>3,681</u>                      |
| <b>Future Tax Liability</b>                            |                     |                     |                                   |
|  | -                   | -                   | 381                               |
| <b>Long term debt (Note 8)</b>                         | 4,659               | 46                  | 2,671                             |
|  | <u>9,457</u>        | <u>2,069</u>        | <u>6,733</u>                      |
| <b>Shareholders' Equity</b>                            |                     |                     |                                   |
| Share capital  |                     |                     |                                   |
| Authorized: unlimited number of common shares (Note 7) | 4,079               | 5,672               | 4,079                             |
| Retained (deficit) earnings                            | 1,466               | 691                 | 2,674                             |
|  | <u>5,545</u>        | <u>6,363</u>        | <u>6,753</u>                      |
|  | <u>\$ 15,002</u>    | <u>\$ 8,432</u>     | <u>\$ 13,486</u>                  |



**Philom Bios Inc.**  
**Consolidated Statement of Loss and Retained Earnings**  
**For the three months ended December 31, 2005 and 2004**  
**(unaudited)**  
**(000's) except per-share amounts**

|   | Three months ended<br>December 31 |                |
|---|-----------------------------------|----------------|
|   | <u>2005</u>                       | <u>2004</u>    |
| <b>Sales</b>                            | \$ <b>223</b>                     | \$ -           |
| <b>Cost of sales</b>                    | <u>178</u>                        | <u>19</u>      |
| <b>Gross margin</b>                     | <u>45</u>                         | <u>(19)</u>    |
| <b>Expenses</b>                         |                                   |                |
| Research and business development, net  | 474                               | 465            |
| Marketing and sales                     | 671                               | 701            |
| General and administrative              | 443                               | 700            |
| Other expenses (income)                 | 90                                | (3)            |
|   | <u>1,678</u>                      | <u>1,863</u>   |
| <b>Loss before income taxes</b>         | <b>(1,633)</b>                    | <b>(1,882)</b> |
| Income taxes (Note 3)                   | <u>425</u>                        | <u>620</u>     |
| <b>Net Loss</b>                         | (1,208)                           | (1,262)        |
| Retained earnings, beginning of period  | <u>2,674</u>                      | <u>1,953</u>   |
| <b>Retained Earnings, end of period</b> | \$ <u>1,466</u>                   | \$ <u>691</u>  |
| Basic earnings per share                | \$ (0.34)                         | \$ (0.37)      |



**Philom Bios Inc.**  
**Consolidated Statement of Cash Flows**  
**For the three months ended December 31, 2005 and 2004**  
**(unaudited)**  
**(000's) except per-share amounts**

|   | Three months ended<br>December 31 |            |
|---|-----------------------------------|------------|
|   | 2005                              | 2004       |
| <b>CASH FLOWS FROM (USED IN) THE FOLLOWING</b>          |                                   |            |
| <b>Operating</b>  |                                   |            |
| Net earnings  | \$ (1,208)                        | \$ (1,262) |
| Add back non-cash expenses:                             |                                   |            |
| Depreciation and amortization                           | 125                               | 64         |
|   | (1,083)                           | (1,198)    |
| Changes in non-cash working capital:                    |                                   |            |
| Accounts receivable                                     | (89)                              | 145        |
| Income tax credit recoverable                           | (241)                             | (621)      |
| Inventories   | (1,682)                           | (1,277)    |
| Prepays and deposits                                    | (38)                              | (18)       |
| Accounts payable and accrued charges                    | (717)                             | (92)       |
| Income taxes payable (current and future)               | (425)                             | -          |
| Deferred revenue  | (6)                               | (2)        |
|   | (4,281)                           | (3,063)    |
| <b>Investing</b>  |                                   |            |
| Additions to property, plant and equipment              | (1,077)                           | (3,520)    |
| Additions to patents and trademarks                     | (2)                               | -          |
|   | (1,079)                           | (3,520)    |
| <b>Financing</b>  |                                   |            |
| Proceeds from long term debt                            | 2,275                             | -          |
| Repayment of long term debt                             | (58)                              | (17)       |
| Proceeds from issuance of common shares                 | -                                 | 10         |
|   | 2,217                             | (7)        |
| <b>NET INCREASE (DECREASE) IN CASH</b>                  | (3,143)                           | (6,590)    |
| <b>CASH POSITION, BEGINNING OF PERIOD</b>               | 3,220                             | 5,932      |
| <b>CASH POSITION, END OF PERIOD</b>                     | \$ 77                             | \$ (658)   |
| <b>REPRESENTED BY:</b>                                  |                                   |            |
| Cash and short-term deposits                            | \$ 1,688                          | \$ -       |
| Bank loan   | (1,611)                           | (658)      |
|   | \$ 77                             | \$ (658)   |
| <b>Supplemental Disclosure of Cash Flow Information</b> |                                   |            |
| Interest paid   | \$ 39                             | \$ 3       |
| Income taxes paid                                       | \$ -                              | \$ -       |
| Income taxes received                                   | \$ -                              | \$ -       |

(see accompanying notes)



**Philom Bios Inc.**  
**Notes to Interim Consolidated Financial Statements**  
**For the three months ended December 31, 2005**  
**(unaudited)**  
**(000's) except share and per-share amounts**

**1. DESCRIPTION OF BUSINESS**

Philom Bios Inc. is incorporated under The Business Corporations Act (Saskatchewan). The Company researches, develops, manufactures and sells microbial inoculants to serve the needs of farmers.

The interim consolidated financial statements should be read in conjunction with, and are based on, the same accounting policies as contained in the Company's September 30, 2005 Annual Report.

These statements are presented on a consolidated basis. The consolidated financial statements include the accounts of the Company's two wholly owned subsidiaries; Philom Bios Ltd. and Philom Bios Investments Inc. The Company's wholly owned US subsidiary, Philom Bios Ltd., is accounted for using the temporal method. Under this method, monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet dates. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at average rates for the period. Translation exchange gains or losses are reflected in net earnings. Intercompany balances and transactions have been eliminated.

**2. USE OF ESTIMATES**

The interim consolidated financial statements, which include the use of estimates and judgments, contain all adjustments that management believes are necessary for fair presentation of the Company's financial position, results of operations and cash flows.

**3. INCOME TAXES**

The provision for income tax recovery of \$425 (December 2004 - \$620) is based on the current quarter's estimated tax losses, adjusted for timing differences on depreciation and recognition of investment tax credits, using estimated average annual income tax rates.

Federal and provincial research and development tax credits of \$241 (December 2004 - \$Nil) were added to the income tax credit recoverable based on year to date research and development capital and operating expenditures.



**Philom Bios Inc.**  
**Notes to Interim Consolidated Financial Statements**  
**For the three months ended December 31, 2005**  
**(unaudited)**  
**(000's) except share and per-share amounts**

**4. FINANCIAL INSTRUMENTS**

A portion of the Company's revenues and expenditures are denominated in US dollars. The Company is exposed to currency fluctuations on transactions denominated in US dollars and potential currency fluctuations may impact on the profitability of the Company. This risk is managed, from time to time, through the use of foreign exchange forward contracts to fix the exchange rates on future net foreign currency cash flows. The Company does not hold or issue derivative contracts for speculative or trading purposes.

As at December 31, 2005, the Company has no foreign currency forward contracts outstanding.

The carrying value of cash, accounts receivable, accounts payable, accrued liabilities and long-term debt approximated their respective fair values.

**5. INVENTORY**

|                                  | December 31<br><u>2005</u> | December 31<br><u>2004</u> | September 30<br><u>2005</u><br>(audited) |
|----------------------------------|----------------------------|----------------------------|--|
| Raw materials & work in progress | \$ 3,476                   | \$ 2,520                   | \$ 1,671                                 |
| Finished goods                   | <u>189</u>                 | <u>553</u>                 | <u>310</u>                               |
|                                  | <u>\$ 3,665</u>            | <u>\$ 3,073</u>            | <u>\$ 1,981</u>                          |

**6. BANK LOAN**

The Company has a revolving demand bank loan, repayable March 31, 2006, at prime rate interest, payable monthly. Subsequent to the end of the quarter the loan was settled in full.

**7. SHARE CAPITAL**

As at December 31, 2005, 3,529,563 (September 30, 2005 – 3,529,563) shares were issued and outstanding. Earnings per share are calculated using the weighted average number of shares outstanding as follows: three months ending December 31, 2005 – 3,529,563.



**Philom Bios Inc.**  
**Notes to Interim Consolidated Financial Statements**  
**For the three months ended December 31, 2005**  
**(unaudited)**  
**(000's) except share and per-share amounts**

**7. SHARE CAPITAL (continued)**

The Company has employee, officer and director stock option plans. These plans are more fully described in the 2005 Annual Report.

During the quarter no options were exercised to purchase shares. During the quarter no options were issued and no options expired.

**8. LONG TERM DEBT**

The long term debt obligations of the Company are as follows:

|                           | <u>2005</u>     | <u>2004</u>  |
|---------------------------|-----------------|--------------|
| Mortgage payable          | \$ 2,800        | \$ -         |
| Term loan                 | 2,275           | -            |
| Capital lease obligations | <u>46</u>       | <u>103</u>   |
|                           | 5,121           | 103          |
| Less: current portion     | <u>(462)</u>    | <u>(57)</u>  |
|                           | <u>\$ 4,659</u> | <u>\$ 46</u> |

The mortgage and term loan are secured by a first charge on the land, paving and building assets and certain other undertakings. Interest on these obligations is calculated at a variable rate based on bankers' acceptance rates plus a stamping fee of 1.75% for the mortgage and 1.65% for the term loan. The mortgage principal is payable in equal monthly payments of \$16 over 15 years and the term loan principal is payable in equal monthly payments of \$19 over 10 years.

The principal payments on the mortgage are scheduled as follows:

|                  |        |
|------------------|--------|
| 2006             | \$ 192 |
| 2007             | 192    |
| 2008             | 192    |
| 2009             | 192    |
| 2010             | 192    |
| Subsequent years | 1,840  |



**Philom Bios Inc.**  
**Notes to Interim Consolidated Financial Statements**  
**For the three months ended December 31, 2005**  
**(unaudited)**  
**(000's) except share and per-share amounts**

**8. LONG TERM DEBT (continued)**

The principal payments on the term loan are scheduled as follows:

|                  |    |       |
|------------------|----|-------|
| 2006             | \$ | 228   |
| 2007             |    | 228   |
| 2008             |    | 228   |
| 2009             |    | 228   |
| 2010             |    | 228   |
| Subsequent years |    | 1,135 |

The interest rate on the capital lease obligation is 6.69% maturing in 2007.

The minimum lease payments over the next two years by the Company are as follows:

|      |    |           |
|------|----|-----------|
| 2006 | \$ | 42        |
| 2007 |    | 14        |
|      | \$ | <u>56</u> |

**9. SEASONALITY**

The Company's sales are seasonal. The majority of sales are recorded in the period January to June, which covers the 2<sup>nd</sup> and 3<sup>rd</sup> quarters. Timing of customer purchases will vary each year and sales can be expected to shift from one quarter to another. Interim results are not necessarily indicative of the results expected for the fiscal year.

**10. RELATED PARTY TRANSACTIONS**

The Company incurred fees for consulting services provided by a Director and acquired certain products for resale from a Company controlled by a Director. These transactions are in the normal course of operations and are measured at the exchange amount, which represents market value.