



FOR IMMEDIATE RELEASE

May 9, 2006

## Philom Bios Announces Second Quarter Results

SASKATOON, SK — Philom Bios Inc. is pleased to report its results for the six months ended March 31, 2006.

### Highlights:

- Financial

(\$000's, except earnings per share)	2nd Quarter		Year to Date	
	2006	2005	2006	2005
Sales	6,931	6,820	7,154	6,820
Net Earnings (Loss)	1,732	2,426	524	1,164
Net Earnings per Share	\$ 0.49	\$ 0.69	\$ 0.15	\$ 0.33

- Net 2<sup>nd</sup> quarter earnings of \$0.49 per share were below last year results but are in the range of normal outcomes for this time of year.
- Second quarter cash balances increased by \$4.6 million, reflecting the benefit of positive cash inflows due to early customer payment incentives.

On the strength of second quarter sales of \$6.9 million (2005 - \$6.8 million) year to date earnings are now positive at \$0.5 million (2005 - \$1.2 million). While year to date sales are ahead of the prior year, the decline in year to date gross margins and earnings over the prior year is due to higher provision for inventory write downs of 'single season' products due to higher uncertainty over farmer seeding intentions. In addition, net operating costs for the year to date now total \$3.6 million (2005 - \$3.4 million), an increase of 6% due to our growing investment in research initiatives primarily related to North American corn and soybean markets, but offset by lower general and administrative costs from the prior year due to reduced legal costs. We caution the reader that interim results are not necessarily indicative of final earnings outcomes.

On a separate matter, subsequent to the quarter, the Company formally announced the creation of the joint venture company Philom Bios (Australia) Pty. Ltd., an Australia based sales and marketing company formed with Grains Research Development Corporation (GRDC) to provide Australian farmers with high value inoculants and to act as a commercialization vehicle for emerging technologies developed by GRDC.

President/CEO Calvin Sonntag comments, "Sales at the time of this writing are similar to last year's record sales. However, we clearly recognize the remaining and significant level of uncertainty surrounding farmer planting intentions driven by unprecedented challenges farmers face in the current environment. This creates a wide range of possible earnings outcomes in our business. This said, we remain ever diligent in serving the needs of our customers in these difficult times with fertility efficiency tools today and in continuing to invest in innovative solutions that will meet their needs in the future."

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:

Calvin Sonntag  
Philom Bios Inc.  
3935 Thatcher Avenue,  
Saskatoon, SK Canada S7R 1A3  
Phone: (306) 657-8202  
Fax: (306) 668-4232  
[Email: csontag@philombios.com](mailto:csontag@philombios.com)



## **Management Discussion and Analysis**

### **For the Second Quarter ended March 31, 2006**

#### **Information available up to May 5, 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 six months ended March 31, 2006 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*

As the Company has now entered its active sales season, second quarter sales of \$6.9 million (2005 - \$6.8 million) reflect the sale of all products into the distribution channels in anticipation of spring planting needs. Due to the Company's short selling season that straddles both the second and third quarters, initial product shipments, both by product type and timing, may vary widely on year over year basis. Accordingly, interim sales are not necessarily indicative of final sales outcomes.

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

The decline in year to date gross margin over the prior year is due to higher provision for inventory write downs of 'single season' products due to higher uncertainty over farmer seeding intentions. Once the sales season is completed and product returns are established, final costs and margins are subject to further adjustment to reflect final results.

#### *Operating Costs*

Total operating costs for the six months ended March 31, 2006 amounted to \$3.6 million (2005 – \$3.4 million). The increase in expenses of 6% is primarily attributable to additional investments in research initiatives primarily related to our North American corn and soybean markets. These increases are offset by reduced general and administrative costs mainly related to higher legal costs incurred in 2005.

## 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)	J-04	S-04	D-04	M-05	J-05	S-05	D-05	M-06
Sales	6,911	(67)	-	6,820	7,435	175	223	6,931
Earnings (loss) before extraordinary item	2,285	(1,071)	(1,262)	2,426	1,576	(694)	(1,208)	1,732
Earnings (loss)	2,285	(1,071)	(1,262)	2,426	386	(834)	(1,208)	1,732
Basic Earnings (loss) per share:								
Before extraordinary item	\$ 0.70	\$(0.33)	\$(0.37)	\$ 0.70	\$ 0.45	\$(0.19)	\$(0.34)	\$ 0.49
Net Earnings (loss)	\$ 0.70	\$(0.33)	\$(0.37)	\$ 0.70	\$ 0.11	\$(0.23)	\$(0.34)	\$ 0.49

### Liquidity and Capital Resources

As expected in this part of the business cycle, operating cash flows increased in the quarter by \$4.9 million (2005 - \$5.3 million) on the strength of positive earnings, adjusted for changes in working capital balances. Investment and financing activities in the second quarter include new capital expenditures of \$0.1 million, primarily representing final costs of building improvements, and long term debt payments also of \$0.1 million on the Company's long term debt credit facilities. Total cash balances for the year to date have increased by \$1.5 million reflecting positive cash from operations of \$0.6 million, year to date capital expenditures of \$1.2 million (primarily the balance of building improvement costs), offset by proceeds of debt of \$2.3 million, (less long-term debt payments) which was drawn to finance the facility expansion costs incurred in the current and past fiscal year.

Due to the success of early payment incentive programs and the benefits of the long-term debt structure, as at March 31, 2006, the Company has a total of \$4.7 million in cash and short term deposits and has a positive working capital ratio of 1.83 (2005 – 1.47).

### Related Party Transactions

Throughout the fiscal year, the Company incurs fees for consulting services provided by a Director and is committed to the purchase of 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 - 3,529,563). 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:	2nd Quarter		Year to Date	
	2006	2005	2006	2005
# of shares outstanding				
Beginning of period	3,529,563	3,422,031	3,529,563	3,415,761
Issued pursuant to exercise of options	-	107,532	-	113,802
End of period	3,529,563	3,529,563	3,529,563	3,529,563

Capital Stock Transactions:	2nd Quarter		Year to Date	
	2006	2005	2006	2005
Capital stock (\$000's)				
Beginning of period	4,079	5,672	4,079	5,662
Proceeds on exercise of options	-	172	-	182
Return of Capital Distribution	-	(1,765)	-	(1,765)
End of period	4,079	4,079	4,079	4,079

### Option Transactions:

The Company has an Equity Compensation Plan which provides for a grant of options to directors, management, and other employees. During the quarter, 93,500 options were granted at a price of \$4.00 and 10,000 options expired. As at the date of this report 258,440 options remain outstanding.

### Outlook Update

Unprecedented economic challenges facing farmers have led to very high levels of uncertainty in regards to seeding intentions. While the Company is expecting volume gains in corn and soybean markets, a material change in planted acres, especially in pulse crops, may significantly affect Company results. In addition, despite these uncertainties, increased investment in research and business development initiatives will also impact final outcomes. As a result, Management cautiously estimates a wide range of earnings outcomes that could vary between \$0.15 and \$0.40 per share.

### 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 SIX MONTHS ENDED MARCH 31, 2006**

**(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 March 31, 2006 and the Consolidated Statement of Earnings and Retained Earnings and Cash Flows for the six months ended March 31, 2006. 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 March 31, 2006**  
**(unaudited)**  
**(000's)**

	As At		
	March 31 2006	March 31 2005	September 30 2005 (audited)
<b>Current Assets</b>			
Cash and short-term deposits	\$ 4,718	\$ 2,783	\$ 3,220
Accounts receivable	1,274	2,446	407
Income tax receivable	1,456	-	1,287
Inventory (Note 5)	2,818	2,846	1,981
Prepays and deposits	142	154	113
	<u>10,408</u>	<u>8,229</u>	<u>7,008</u>
<b>Future Tax Asset</b>			
	-	-	-
<b>Property, Plant and Equipment</b>	7,361	4,478	6,351
<b>Patents and Trademarks, net of amortization</b>	127	117	127
	<u>7,488</u>	<u>4,595</u>	<u>6,478</u>
	<u>\$ 17,896</u>	<u>\$ 12,824</u>	<u>\$ 13,486</u>
<b>Current Liabilities</b>			
Accounts payable and accrued charges	\$ 3,577	\$ 2,787	\$ 3,447
Income tax payable	-	151	-
Deferred revenue and development assistance	1,649	2,602	-
Current portion long term debt	456	51	234
	<u>5,682</u>	<u>5,591</u>	<u>3,681</u>
<b>Future Tax Liability</b>			
	383	-	381
<b>Long term debt (Note 8)</b>	4,555	36	2,671
	<u>10,620</u>	<u>5,627</u>	<u>6,733</u>
<b>Share capital</b>			
Authorized: unlimited number of common shares (Note 6)	4,079	4,079	4,079
Retained (deficit) earnings	3,197	3,118	2,674
	<u>7,276</u>	<u>7,197</u>	<u>6,753</u>
	<u>\$ 17,896</u>	<u>\$ 12,824</u>	<u>\$ 13,486</u>

(see accompanying notes)



**Philom Bios Inc.**  
**Consolidated Statement of Loss and Retained Earnings**  
**For the six months ended March 31, 2006 and 2005**  
**(unaudited)**  
**(000's) except per-share amounts**

	Three months ended March 31		Six months ended March 31	
	2006	2005	2006	2005
<b>Sales</b>	\$ 6,931	\$ 6,820	\$ 7,154	\$ 6,820
<b>Cost of sales</b>	<u>2,649</u>	<u>1,744</u>	<u>2,827</u>	<u>1,763</u>
<b>Gross margin</b>	<u>4,282</u>	<u>5,076</u>	<u>4,327</u>	<u>5,057</u>
<b>Expenses</b>				
Research and business development, net	522	231	996	696
Marketing and sales	971	901	1,642	1,602
General and administrative	453	379	896	1,079
Other expenses (income)	(4)	56	86	53
	<u>1,942</u>	<u>1,567</u>	<u>3,620</u>	<u>3,430</u>
<b>Earnings from operations and before income taxes</b>	<b>2,340</b>	<b>3,509</b>	<b>707</b>	<b>1,627</b>
Income taxes (Note 3)	<u>(608)</u>	<u>(1,083)</u>	<u>(183)</u>	<u>(463)</u>
<b>Net earnings</b>	<u><b>\$ 1,732</b></u>	<u><b>\$ 2,426</b></u>	<u>524</u>	<u>1,164</u>
Retained earnings, beginning of period			<u><b>2,673</b></u>	<u><b>1,954</b></u>
<b>Retained Earnings, end of period</b>			<u><b>\$ 3,197</b></u>	<u><b>\$ 3,118</b></u>
 Basic earnings per share	 \$ 0.49	 \$ 0.69	 0.15	 0.33

(see accompanying notes)



**Philom Bios Inc.**  
**Consolidated Statement of Cash Flows**  
**For the six months ended March 31, 2006 and 2005**  
**(unaudited)**  
**(000's) except per-share amounts**

	Three months ended March 31		Six months ended March 31	
	2006	2005	2006	2005
<b>CASH FLOWS FROM (USED IN) THE FOLLOWING</b>				
<b>Operating</b>				
Net earnings	\$ 1,731	\$ 2,426	\$ 523	\$ 1,164
Add back non-cash expenses:				
Depreciation and amortization	90	105	215	169
	<u>1,821</u>	<u>2,531</u>	<u>738</u>	<u>1,333</u>
Changes in non-cash working capital:				
Accounts receivable	(778)	(2,293)	(867)	(2,148)
Income tax/ITC receivable	72	621	(169)	-
Inventories	846	227	(836)	(1,050)
Prepays and deposits	8	11	(30)	(7)
Accounts payable and accrued charges	851	1,539	134	1,447
Income taxes payable (current and future)	429	151	4	151
Deferred revenue	1,649	2,495	1,643	2,493
	<u>4,898</u>	<u>5,282</u>	<u>617</u>	<u>2,219</u>
<b>Investing</b>				
Additions to property, plant and equipment	(148)	(231)	(1,225)	(3,751)
Additions to patents and trademarks	1	-	(1)	-
	<u>(147)</u>	<u>(231)</u>	<u>(1,226)</u>	<u>(3,751)</u>
<b>Financing</b>				
Proceeds from long term debt	-	-	2,275	-
Repayment of long term debt	(111)	(17)	(169)	(34)
Return of Capital	-	(1,765)	-	(1,765)
Proceeds from issuance of common shares	-	172	-	182
	<u>(111)</u>	<u>(1,610)</u>	<u>2,106</u>	<u>(1,617)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	4,640	3,441	1,497	(3,149)
<b>CASH POSITION, BEGINNING OF PERIOD</b>	78	(658)	3,221	5,932
<b>CASH POSITION, END OF PERIOD</b>	<u>\$ 4,718</u>	<u>\$ 2,783</u>	<u>\$ 4,718</u>	<u>\$ 2,783</u>
<b>REPRESENTED BY:</b>				
Cash	\$ 210	\$ 444	\$ 210	\$ 444
Short-term deposits	4,508	2,339	4,508	2,339
	<u>\$ 4,718</u>	<u>\$ 2,783</u>	<u>\$ 4,718</u>	<u>\$ 2,783</u>
<b>Supplemental Disclosure of Cash Flow Information</b>				
Interest paid	\$ 76	\$ 3	\$ 124	\$ 8
Income taxes paid	\$ -	\$ -	\$ -	\$ -
Income taxes received	\$ -	\$ -	\$ -	\$ -

(see accompanying notes)



**Philom Bios Inc.**  
**Notes to Interim Consolidated Financial Statements**  
**For the six months ended March 31, 2006**  
**(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 expense of \$183 (March 2005 - \$463) is based on year to date earnings, 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 \$353 (March 2005 - \$225) were added to the income tax credit recoverable based on year to date research and development capital and operating expenditures.



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**Notes to Interim Consolidated Financial Statements**  
**For the six months ended March 31, 2006**  
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**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 March 31, 2006, the Company has no foreign currency forward contracts outstanding.

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

**5. INVENTORY**

	March 31 2006	March 31 2005	September 30 2005 (audited)
Raw materials & work in progress	\$ 743	\$ 521	\$ 1,671
Finished goods	<u>2,075</u>	<u>2,325</u>	<u>310</u>
	<u>\$ 2,818</u>	<u>\$ 2,846</u>	<u>\$ 1,981</u>

**6. SHARE CAPITAL**

As at March 31, 2006, 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: six months ending March 31, 2006 – 3,529,563.

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 93,500 options were issued and 10,000 options expired.



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**Notes to Interim Consolidated Financial Statements**  
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**7. PROVISION FOR INVENTORY SUPPORT**

The Company has provided for returns based on estimated percentages. A provision of \$1,112 (March 2005 - \$1,417) has been deducted from gross revenues in the calculation of sales for the financial statements. This provision will be adjusted based on actual returns at the end of the selling season.

**8. LONG TERM DEBT**

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

	<u>2006</u>	<u>2005</u>
Mortgage payable	\$ <u>2,752</u>	\$ -
Term loan	<u>2,223</u>	-
Capital lease obligations	<u>36</u>	<u>87</u>
	<u>5,011</u>	<u>87</u>
Less: current portion	<u>(456)</u>	<u>(51)</u>
	<u>\$ 4,555</u>	<u>\$ 36</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	\$ 96
2007	192
2008	192
2009	192
2010	192
Subsequent years	1,888



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**Notes to Interim Consolidated Financial Statements**  
**For the six months ended March 31, 2006**  
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**(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	\$	171
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	\$	22
2007		14
	\$	<u>36</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 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.