



Management Discussion and Analysis

For the Third Quarter ended June 30, 2007

Information available up to August 15, 2007

Management's Discussion and Analysis is intended to explain the Company's operating results and financial position for the 2007 fiscal year compared with those of previous fiscal years. 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 August 15, 2007. The following discussion and analysis should be read in conjunction with the 2006 Annual Report and the consolidated financial statements and accompanying notes for the nine months ended June 30, 2007 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.

Business Overview

Philom Bios Inc. is an agricultural crop input company with a 26 year history in the development, manufacture, and distribution of plant inoculants and other fertility efficiency products. The Company's product portfolio consists of a range of proprietary and distributed inoculants designed to provide our customers with enhanced fertility efficiency, increased yields, and improved profitability. The Company's products are sold through major agricultural distributors and retailers in Canada, the United States, and 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

Third quarter results reflect the balance of our spring season business that commenced in the second quarter. As a result, the Company has recorded sales for the year to date of \$14.1 million (2006 - \$11.9 million). The increase in year to date sales over the prior year, exclusive of certain distributed products no longer sold by the Company, is 25%, driven by a strong increase in demand for JumpStart[®] and TagTeam[®] in the key crop sectors its serves. As noted previously, most shipments in 2007 (and therefore sales) occurred in the 3rd quarter whereas in the prior year sales were earned more evenly over 2nd and 3rd quarters.

Operating Costs

Operating costs for the year to date now total \$5.6 million (2006 - \$5.4 million) with increases in marketing and sales expenses over the prior year reflective of growing commitments in expanding U.S. operations, offset by a reduction in research and development costs which declined due to increased production activities in the quarter and the timing of other ongoing expenses relative to last year.

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)	S-05	D-05	M-06	J-06	S-06	D-06	M-07	J-07
Sales	175	223	6,931	4,772	508	50	4,536	9,519
Earnings (loss) before extraordinary item	(694)	(1,208)	1,732	916	(874)	(1,322)	731	3,422
Earnings (loss)	(834)	(1,208)	1,732	916	(874)	(1,322)	731	4,112
Basic Earnings (loss) per share:								
Before extraordinary item	\$ (0.19)	\$(0.34)	\$0.49	\$ 0.26	\$ (0.25)	\$(0.37)	\$0.21	\$0.96
Net Earnings (loss)	\$ (0.23)	\$(0.34)	\$0.49	\$ 0.26	\$ (0.25)	\$(0.37)	\$0.21	\$1.16

Liquidity and Capital Resources

Strong revenues, and other working capital changes resulted in an increase in cash from operations in the current quarter by \$2.5 million (2006 - \$1.5 million). Investment activities in the quarter reflect additional capital purchases of \$0.1 million mainly related to improvements to manufacturing facilities. Additionally, financing activities reflect payments of \$0.1 million (YTD \$0.3 million) related to settlement of term debt commitments. As a result, as at June 30, 2007, the Company has improved its cash position by \$5.4 million since the prior year end (2006 - \$2.6 million).

At quarter end, the Company has total cash on hand of \$7.0 million and positive working capital ratio of 2.4:1 (2006 - 1.7:1). Over the balance of the year, cash balances are expected to decline to finance ongoing operations and settle current obligations.

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 3,529,663 shares issued (2006 - 3,529,663). 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:	3 rd Quarter		Year to Date	
	2007	2006	2007	2006
# of shares outstanding				
Beginning of period	3,529,663	3,529,563	3,529,663	3,529,563
Issued pursuant to exercise of options	-	100	-	100
End of period	3,529,663	3,529,663	3,529,663	3,529,663

Capital Stock Transactions:	2nd Quarter		Year to Date	
Capital stock (\$000's)	2007	2006	2007	2006
Beginning of period	4,080	4,079	4,080	4,079
Proceeds on exercise of options	-	1	-	1
End of period	4,080	4,080	4,080	4,080

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, no options were granted and 21,250 options expired. There were no options exercised in the quarter. As at the date of this report 303,550 options remain outstanding.

Outlook Update

As the majority of sales are now complete, the Company's estimate of annual earnings becomes more predictable as the Company expects to incur normal operating costs over the balance of year and build up of production inventories for next year's business cycle. Fourth quarter expenses are expected to be higher than prior year due to higher marketing spending and planned research activities relative to the prior year. In offset, and subject to final calculation of all customer support programs, final earnings will also vary depending on the level of fall sales of JumpStart. The Company continues to affirm its estimate of annual net earnings, inclusive of the extraordinary item gain in the range from \$0.60 to \$0.70 per share, with the upper end of the range dependent on final quarter sales. This is a significant forecasted improvement on prior year net earnings of \$0.16 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 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 NINE MONTHS ENDED JUNE 30, 2007

(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 June 30, 2007 and the Consolidated Statement of Earnings and Retained Earnings and Cash Flows for the nine months ended June 30, 2007. 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 June 30, 2007
(unaudited)
(000's)

	As At		
	June 30 2007	June 30 2006	September 30 2006 (audited)
Current Assets			
Cash and short-term deposits	\$ 6,988	\$ 5,865	\$ 1,519
Accounts receivable	3,533	2,496	952
Inventory (Note 5)	1,870	2,166	2,532
Prepays and deposits	51	101	110
Current portion of future tax asset	309	336	803
	<u>12,751</u>	<u>10,964</u>	<u>5,916</u>
Future Tax Assets	150	604	1,150
Property, Plant and Equipment	7,641	7,649	7,492
Patents and Trademarks, net of amortization	112	127	131
	<u>7,903</u>	<u>8,380</u>	<u>8,773</u>
	<u>\$ 20,654</u>	<u>\$ 19,344</u>	<u>\$ 14,689</u>
Current Liabilities			
Accounts payable and accrued charges	4,793	5,878	2,040
Current portion long term debt	431	445	435
	<u>5,224</u>	<u>6,323</u>	<u>2,475</u>
Future Tax Liability	580	377	584
Long term debt (Note 8)	4,009	4,450	4,310
	<u>9,813</u>	<u>11,150</u>	<u>7,369</u>
Shareholders' Equity			
Share capital			
Authorized: unlimited number of common shares (Note 7)	4,080	4,080	4,080
Retained earnings	6,761	4,114	3,240
	<u>10,841</u>	<u>8,194</u>	<u>7,320</u>
	<u>\$ 20,654</u>	<u>\$ 19,344</u>	<u>\$ 14,689</u>

(see accompanying notes)



Philom Bios Inc.
Consolidated Statement of Earnings and Retained Earnings
For the nine months ended June 30, 2007 and 2006
(unaudited)
(000's) except per-share amounts

	Three months ended June 30		Nine months ended June 30	
	2007	2006	2007	2006
Sales	\$ 9,519	\$ 4,772	\$ 14,105	\$ 11,926
Cost of sales	<u>3,056</u>	<u>1,603</u>	<u>4,493</u>	<u>4,430</u>
Gross margin	<u>6,463</u>	<u>3,169</u>	<u>9,612</u>	<u>7,496</u>
Expenses				
Research and development, net	468	572	1,265	1,568
Marketing and sales	846	815	2,968	2,457
General and administrative	428	454	1,355	1,350
Other expenses (income)	74	52	66	71
	<u>1,816</u>	<u>1,893</u>	<u>5,654</u>	<u>5,446</u>
Earnings before Interest and taxes	4,647	1,276	3,958	2,050
Interest expense (income)	<u>9</u>	<u>36</u>	<u>119</u>	<u>103</u>
Earnings before income taxes and extraordinary item	4,638	1,240	3,839	1,947
Income taxes (Note 3)	<u>(1,216)</u>	<u>(324)</u>	<u>(1,008)</u>	<u>(507)</u>
Net earnings before extraordinary item	\$ 3,422	\$ 916	2,831	1,440
Extraordinary item, net of income taxes of \$244 (Note 9)	<u>\$ 690</u>	<u>\$ -</u>	<u>690</u>	
Net income	<u><u>\$ 4,112</u></u>	<u><u>\$ 916</u></u>	<u><u>\$ 3,521</u></u>	<u><u>\$ 1,440</u></u>
Retained earnings, beginning of period			<u>3,240</u>	<u>2,674</u>
Retained Earnings, end of period			<u><u>\$ 6,761</u></u>	<u><u>\$ 4,114</u></u>
Basic earnings per share				
From operations	\$ 0.96	\$ 0.26	\$ 0.80	\$ 0.41
Extraordinary item	<u>\$ 0.20</u>	<u>\$ 0.00</u>	<u>\$ 0.20</u>	<u>\$ 0.00</u>
	<u><u>\$ 1.16</u></u>	<u><u>\$ 0.26</u></u>	<u><u>\$ 1.00</u></u>	<u><u>\$ 0.41</u></u>

(see accompanying notes)



Philom Bios Inc.
Consolidated Statement of Cash Flows
For the nine months ended June 30, 2007 and 2006
(unaudited)
(000's) except per-share amounts

	Three months ended June 30		Nine months ended June 30	
	2007	2006	2007	2006
CASH FLOWS FROM (USED IN) THE FOLLOWING				
Operating				
Net earnings	\$ 4,112	\$ 917	\$ 3,521	\$ 1,440
Add back non-cash expenses:				
Depreciation and amortization	165	161	467	376
	<u>4,277</u>	<u>1,078</u>	<u>3,988</u>	<u>1,816</u>
Changes in non-cash working capital:				
Accounts receivable	(2,190)	(1,222)	(2,582)	(2,089)
Future tax asset	1,360	510	1,494	163
Inventories	1,621	474	662	(184)
Prepays and deposits	49	42	59	12
Accounts payable and accrued charges	1,990	2,276	2,707	2,410
Income taxes payable (current and future)	(7)	(8)	(4)	(4)
Deferred revenue	(4,559)	(1,623)	45	20
	<u>2,541</u>	<u>1,527</u>	<u>6,369</u>	<u>2,144</u>
Investing				
Additions to property, plant and equipment	(127)	(260)	(582)	(1,485)
Additions to patents and trademarks	(5)	(5)	(15)	(6)
	<u>(132)</u>	<u>(265)</u>	<u>(597)</u>	<u>(1,491)</u>
Financing				
Proceeds from long term debt	-	5	33	2,280
Repayment of long term debt	(108)	(120)	(337)	(289)
	<u>(108)</u>	<u>(115)</u>	<u>(304)</u>	<u>1,991</u>
NET INCREASE (DECREASE) IN CASH	2,301	1,147	5,468	2,644
CASH POSITION, BEGINNING OF PERIOD	4,687	4,718	1,520	3,221
CASH POSITION, END OF PERIOD	<u>\$ 6,988</u>	<u>\$ 5,865</u>	<u>\$ 6,988</u>	<u>\$ 5,865</u>
REPRESENTED BY:				
Cash	\$ 1,804	\$ 4,388	\$ 1,804	\$ 4,388
Short-term deposits	5,184	1,477	5,184	1,477
	<u>\$ 6,988</u>	<u>\$ 5,865</u>	<u>\$ 6,988</u>	<u>\$ 5,865</u>
Supplemental Disclosure of Cash Flow Information				
Interest paid	\$ 69	\$ 77	\$ 216	\$ 201
Income taxes paid	\$ -	\$ -	\$ -	\$ -
Income taxes received	\$ -	\$ -	\$ 557	\$ -

(see accompanying notes)



Philom Bios Inc.
Notes to Interim Consolidated Financial Statements
For the nine months ended June 30, 2007
(unaudited)
(000's) except share and per-share amounts

1. DESCRIPTION OF BUSINESS

Philom Bios Inc. ("the Company") 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, 2006 Annual Report.

These statements are presented on a consolidated basis and include the accounts of wholly owned subsidiaries Philom Bios Investments Inc. and Philom Bios Ltd., a US subsidiary, and the proportionate share of the assets, liabilities and expenses of Philom Bios (Australia) Pty Ltd., a joint venture company.

The Company's wholly owned US subsidiary 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 taxes of \$1,008 (June 2006 - \$507) is based on the year to date estimated tax liability 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 \$315 (June 2006 - \$346) were added to future tax assets based on year to date research and development capital and operating expenditures.



Philom Bios Inc.
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(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 June 30, 2007, 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

	<u>June 30</u> 2007	<u>June 30</u> 2006	<u>September 30</u> 2006 (audited)
Raw materials & work in progress	\$ 1,733	\$ 1,514	\$ 2,316
Finished goods	<u>137</u>	<u>652</u>	<u>216</u>
	<u>\$ 1,870</u>	<u>\$ 2,166</u>	<u>\$ 2,532</u>



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6. JOINT VENTURE

The assets, liabilities and operating results of the Company's 50% interest in Philom Bios (Australia) Pty Ltd., a joint venture, included in the consolidated financial statements, are summarized as follows:

	<u>2007</u>	<u>2006</u>
Cash	\$ 149	\$ -
Property, plant and equipment	1	-
Accrued liabilities	<u>(69)</u>	<u>-</u>
	<u>\$ 81</u>	<u>\$ -</u>
Expenses:		
General and administrative	<u>(129)</u>	<u>-</u>
Net Loss for the period ended March 31, 2007	\$ (129)	\$ -
Deficit, beginning of year	<u>(52)</u>	<u>-</u>
Deficit, end of period	<u>(181)</u>	<u>-</u>

7. SHARE CAPITAL

As at June 30, 2007, 3,529,663 (September 30, 2006 – 3,529,663) shares were issued and outstanding. Earnings per share are calculated using the weighted average number of shares outstanding as follows: Nine months ending June 30, 2007 – 3,529,663.

The Company has employee, officer and director stock option plans. These plans are more fully described in the 2006 Annual Report. During the quarter no new options were issued, no options were exercised to purchase shares, and 21,250 options expired.



Philom Bios Inc.
Notes to Interim Consolidated Financial Statements
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8. LONG TERM DEBT

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

	<u>2007</u>	<u>2006</u>
Mortgage payable	\$ 2,487	\$ 2,704
Term Loan	1,928	2,166
Capital lease obligations	<u>25</u>	<u>25</u>
	4,440	4,895
Less: current portion	<u>(431)</u>	<u>(445)</u>
	<u>\$ 4,009</u>	<u>\$ 4,450</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 1.55%. 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:

2007	\$ 48
2008	192
2009	192
2010	192
Subsequent years	1,872



Philom Bios Inc.
Notes to Interim Consolidated Financial Statements
For the nine months ended June 30, 2007
(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:

2007	\$	57
2008		228
2009		228
2010		228
Subsequent years		1,178

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

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

2007	\$	5
2008		12
2009		11
	\$	<u>28</u>

9. EXTRAORDINARY ITEM

During the quarter, the Court of Appeal of Alberta rendered its judgment in respect of the Company's appeal of a 1995 court judgment in favour of Dow AgroSciences Canada ("Dow"), stemming from a 1997 legal dispute related to certain products which had passed their expiry date. The Appeal Court significantly reduced the original judgment amount and, as a result, the Company has recorded an extraordinary item gain of \$690 representing the total reduction in damages, interest, and estimated court costs, net of estimated tax expense of \$244. Subsequent to the quarter end, the Company received notice that Dow has made application to the Supreme Court of Canada with respect to this decision and the Company has also filed an objection to this application.

10. SEASONALITY

The Company's sales are seasonal. The majority of sales are recorded in the period January to June, which covers the 2nd and 3rd 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.

11. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the current period's presentation.