



FOR IMMEDIATE RELEASE

February 9, 2005

## **Philom Bios Announces First Quarter Results**

SASKATOON, SK — Philom Bios is pleased to report its results for the first quarter ended December 31, 2004. As anticipated by the nature of our business cycle, the Company reported a net loss for the three months ended December 31, 2004 of \$1.26 million or \$0.37 per share (2003 - \$1.33 million and \$0.41). As noted in past reports, the first quarter will routinely report a business loss since sales primarily occur in the spring selling season over the second and third quarters.

President/CEO Calvin Sonntag comments, "First quarter losses are predictably normal for this time of year. The good news is that subsequent cash receipts arising from early order commitments have already eliminated the short term bank indebtedness. Additionally, while we are always cautious in predicting the outcome of any fiscal year, early order and market indications are currently supportive of our business growth targets."

### **Management Discussion and Analysis**

#### **Operations**

Total operating costs for the quarter amounted to \$1.86 million as compared to \$1.33 million in the comparable prior quarter. The increases in expenses over the prior year are a reflection of several factors. A significant portion of this increase is attributable to legal fees incurred in defense of the Dow AgroSciences claim that went to trial in the quarter. The balance of the increases relate to certain cost increases associated with increases in personnel over the past year and an acceleration of certain administration and marketing costs as compared to the prior year. These accelerated costs are expected to normalize over the balance of the year as all departmental costs remain on budget. Since almost all sales activity occurs in subsequent quarters, the Company does not record any significant revenues during the first quarter. Cost of Sales expenses reflect certain allocated overheads expensed in the period.

#### **Liquidity and Capital Resources**

For the first quarter, cash balances declined by \$6.59 million. Of this total, \$3.06 million (2003 - \$3.24 million) relates to the draw down of funds to finance ongoing operations, settle certain accounts payable, and build up inventories in the quarter. These draw downs are consistent with the timing of our business cycle, and most cash inflows are collected as early order payments or after the primary sales season. Most significantly in the quarter, the Company used existing cash reserves and short-term borrowing to fund the \$3.4 million purchase of a manufacturing facility, as more completely described in note 6 in the attached financial statements. Additionally, the Company expended \$119,736 on purchases of other capital assets and \$16,717 in debt reduction payments, with some offset from proceeds of issuance of common shares on exercise of options.

The Company does encourage early commitment to its products through certain early order and payment incentive programs. These early cash inflows, received subsequent to December, have also eliminated the bank indebtedness that existed at December 31, 2004.



## Management Discussion and Analysis (continued)

### Outlook Update

Early order commitments in both the Canadian and US market, together with early feedback from various sales and distribution sources, gives the Company the expectation it will achieve its 2005 double digit revenue growth objectives. Due to the nature of the agricultural industry, there will always be uncertainty as to final outcomes until the completion of the entire seeding season. However, initial market assessments point to stability or growth in total acres for all major crops in which our products are used.

-30-

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.  
#318 – 111 Research Drive,  
Saskatoon, SK Canada S7N 3R2  
Phone: (306) 657-8202  
Fax: (306) 668-8299  
[Email: csonntag@philombios.ca](mailto:csonntag@philombios.ca)

Rod Delahey  
Heyday Communications  
#200, 173 2<sup>nd</sup> Ave. S  
Saskatoon, SK Canada S7K 1K6  
Phone: (306) 683-4255  
Fax: (306) 683-4252  
[Email: rod@heyday.ca](mailto:rod@heyday.ca)



**Philom Bios Inc.**  
**Consolidated Balance Sheet**  
**as at December 31, 2004**  
**(unaudited)**

	As At		
	December 31 2004	December 31 2003	September 30 2004 (audited)
<b>Current Assets</b>			
Cash and short-term deposits	\$ -	\$ 1,585	\$ 5,932
Accounts receivable	105	90	253
Income tax receivable	621	-	-
Inventory (Note 5)	3,073	3,052	1,796
Prepays and deposits	164	145	147
	<u>3,963</u>	<u>4,872</u>	<u>8,128</u>
<b>Property, Plant and Equipment</b>	4,351	907	894
<b>Patents and Trademarks</b>	118	109	119
	<u>4,469</u>	<u>1,016</u>	<u>1,013</u>
	<u>\$ 8,432</u>	<u>\$ 5,888</u>	<u>\$ 9,141</u>
<b>Current Liabilities</b>			
Bank indebtedness (Note 7)	\$ 658	\$ -	\$ -
Accounts payable and accrued charges	1,202	977	1,293
Deferred development assistance	106	144	109
Current portion long-term debt	57	64	64
	<u>2,023</u>	<u>1,185</u>	<u>1,466</u>
<b>Long-Term Debt</b>	46	102	56
	<u>2,069</u>	<u>1,287</u>	<u>1,522</u>
<b>Shareholders' Equity</b>			
Share capital			
Authorized: unlimited number of common shares (Note 8)	5,672	5,385	5,662
Retained (deficit) earnings	691	(784)	1,957
	<u>6,363</u>	<u>4,601</u>	<u>7,619</u>
	<u>\$ 8,432</u>	<u>\$ 5,888</u>	<u>\$ 9,141</u>

(see accompanying notes)



**Consolidated Statement of Earnings and Retained Earnings  
for the three months ended December 31, 2004 and 2003  
(unaudited)  
(000's)**

	Three months ended December 31	
	2004	2003
<b>Sales</b>	\$ -	\$ 6
<b>Cost of sales</b>	<u>(19)</u>	<u>(12)</u>
<b>Gross margin (loss)</b>	<u>(19)</u>	<u>(6)</u>
<b>Expenses</b>		
Research and development, net	465	449
Marketing and sales	701	550
General and administrative	700	318
Other expenses (income)	<u>(3)</u>	<u>10</u>
	<u>1,864</u>	<u>1,326</u>
<b>Earnings from operations and before income taxes</b>	<b>(1,882)</b>	<b>(1,333)</b>
<b>Income taxes (Note 3)</b>		
Current recovery	<u>620</u>	<u>-</u>
<b>Net earnings (loss)</b>	<b>(1,262)</b>	<b>(1,333)</b>
Retained earnings, beginning of period	<u>1,953</u>	<u>548</u>
<b>Retained earnings (deficit), end of period</b>	<u><b>691</b></u>	<u><b>(784)</b></u>
Basic (loss) earnings per share (Note 8)	\$ (0.37)	\$ (0.41)

(see accompanying notes)



**Consolidated Statement of Cash Flows**  
**for the three months ended December 31, 2004 and 2003**  
**(unaudited)**  
**(000's)**

	Three months ended December 31	
	<u>2004</u>	<u>2003</u>
<i>CASH FLOWS FROM (USED IN) THE</i>		
<i>FOLLOWING</i>		
<b>Operating</b>		
Net earnings	\$ (1,262)	\$ (1,333)
Add back non-cash expenses:		
Depreciation and amortization	<u>64</u>	<u>72</u>
	(1,198)	(1,261)
Changes in non-cash working capital:		
Accounts receivable	145	55
Income tax/ITC receivable	(621)	-
Inventories	(1,277)	(1,461)
Prepays and deposits	(18)	(58)
Accounts payable and accrued charges	(92)	(489)
Deferred development assistance	<u>(2)</u>	<u>(30)</u>
	<u>(3,063)</u>	<u>(3,243)</u>
<b>Investing</b>		
Additions to property, plant and equipment	<u>(3,520)</u>	<u>(77)</u>
	<u>(3,520)</u>	<u>(77)</u>
<b>Financing</b>		
Repayment of long-term debt	(17)	(76)
Proceeds from issuance of common shares	<u>9</u>	<u>4</u>
	<u>(7)</u>	<u>(71)</u>
<b>NET DECREASE IN CASH</b>	(6,590)	(3,392)
<b>CASH POSITION, BEGINNING OF PERIOD</b>	<u>5,932</u>	<u>4,977</u>
<b>CASH POSITION, END OF PERIOD</b>	<b>\$ (658)</b>	<b>\$ 1,585</b>

(see accompanying notes)



**Philom Bios Inc.**  
**Notes to Interim Consolidated Financial Statements**  
**For the three months ended December 31, 2004**  
**(unaudited)**

**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, 2004 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 101063285 Saskatchewan Ltd. 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 tax recovery of \$620,051 (Dec 2003 – Nil) is based on current quarter losses and estimated average annual income tax rate.

**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



**Philom Bios Inc.**  
**Notes to Interim Consolidated Financial Statements**  
**For the three months ended December 31, 2004**  
**(unaudited)**

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, 2004, the Company has foreign currency forward contracts to sell \$300,000 US Dollars at an average exchange rate of \$1.2204 Canadian. These contracts mature in March 2005.

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

**5. INVENTORY**

	December 31 <u>2004</u>	December 31 <u>2003</u>	September 30 <u>2004</u> (audited)
Raw materials & work in progress	\$ 2,519,554	\$ 2,644,456	\$ 1,587,869
Finished goods	<u>553,210</u>	<u>407,629</u>	<u>208,163</u>
	<u>\$ 3,072,764</u>	<u>\$ 3,052,085</u>	<u>\$ 1,796,032</u>

**6. ACQUISITIONS**

During the quarter, the Company acquired all of the outstanding common shares of 101063285 Saskatchewan Ltd. which owns a building and related assets for total consideration of \$3,400,000 cash. The assets and liabilities assumed consist of the following:

**Assets**

Cash	\$ 100
Land	481,652
Paving	254,993
Building	<u>2,663,255</u>
	<u>\$ 3,400,000</u>



**Philom Bios Inc.**  
**Notes to Interim Consolidated Financial Statements**  
**For the three months ended December 31, 2004**  
**(unaudited)**

**7. BANK INDEBTEDNESS**

The Company has a revolving demand bank loan, repayable March 31, 2005, at prime rate interest, payable monthly. Subsequent to the end of the quarter the loan was settled in full.

**8. SHARE CAPITAL**

As at December 31, 2004, 3,422,031 (September 30, 2004 – 3,415,761) 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, 2004 – 3,420,106.

The Company has employee, officer and director stock option plans. These plans are more fully described in the 2004 Annual Report.

During the quarter 6,270 options were exercised to purchase shares for cash proceeds of \$9,405. During the quarter no options were issued and 1,080 options expired.

**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 TRANSACTION**

The Company leases manufacturing and warehouse facilities from a company owned by a shareholder. The Company incurred fees for consulting services provided by a Director. These transactions are in the normal course of operations and are measured at the exchange amount, which represents market value.