



FOR IMMEDIATE RELEASE

August 26, 2005

Philom Bios Announces Third Quarter Results

SASKATOON, SK — Philom Bios Inc. is pleased to report its results for the nine months ended June 30, 2005.

Third Quarter Highlights:

- Financial

(\$000's, except earnings per share)	3rd Quarter		Year to Date	
	2005	2004	2005	2004
Sales	7,435	6,911	14,255	12,195
Earnings before extraordinary item	1,576	2,285	2,740	2,484
Net Earnings	386	2,285	1,550	2,484
Basic Earnings per share:				
Before Extraordinary item	\$ 0.45	\$ 0.70	\$ 0.79	\$ 0.77
Net earnings	\$ 0.11	\$ 0.70	\$ 0.45	\$ 0.77

- Year to date sales highest in Company history.
- Operating and production costs remain well controlled in line with increased sales volumes and market expansion activities leading to record earnings from on-going operations.
- Net cash flows increase in quarter by \$2.9 million on strength of positive quarterly earnings.
- Company establishes record number of field trials across key crop sectors.
- Second phase of building improvements commenced as production group relocates to new facility effective July 1, 2005. Construction activities remain on schedule and on budget for relocation of office and lab to new facility by end of calendar year.
- Company receives judgment on Dow AgroSciences legal claim resulting in extraordinary item charge to earnings. Company announces appeal of judgment.

Building on a second consecutive year of double digit percent sales growth, the Company reported year to date net earnings before extraordinary item of \$2.7 million (2004 - \$2.5 million) or \$0.79 per share (2004 - \$0.77). Improved results are directly attributable to market success with sales gains in all major product categories and across all sectors of the North American market. With the primary sales season now complete, year to date gross margins are considered representative of final outcomes but net earnings will decline over the balance of the year as the Company incurs its fourth quarter operating costs.

Net operating costs for the year to date total \$5.2 million (2004 - \$4.2 million). The increases over the prior year relate to investment in market expansion and product development, and legal fees incurred in defense of the Dow AgroSciences claim. Taking into account final quarter departmental costs, forecasted earnings before extraordinary item are expected to reach \$0.45 per share (2004 - \$0.43 per share).

President/CEO Calvin Sonntag comments, "By many measures, our interim results reflect a tremendous outcome for the Company. Record sales, prudent management of operating expenses and success with our facilities investment and market development plans have combined to make this an extraordinary year for Philom Bios. The only negative has been the charge we've taken in the Dow claim which has reduced net earnings. However, even as we look forward to a vigorous appeal of this decision as noted in earlier news releases, this outcome will not affect our go-forward operating plans in any way."

-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:

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Management Discussion and Analysis

For the Third Quarter ended June 30, 2005

Information available up to August 26, 2005

The Management Discussion and Analysis is intended to explain the Company's operating results and financial position for the 2005 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 2004 Annual Report and the consolidated financial statements and accompanying notes for the nine months ended June 30, 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.

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

Third quarter activities, which comprise the balance of the spring sales season, have resulted in year to date sales of \$14.3 million (2004 - \$12.2 million) which is an increase of \$2.1 million over the prior year. This is the second consecutive year of double digit percent sales growth as the Company recorded gains in all major product categories across all sectors of the North American market. As a result, year to date operating earnings for the nine months ended June 30, 2005 amount to \$2.7 million (2004 - \$2.5 million) or \$0.79 per share (2004 - \$0.77) which reflects the peak of the business cycle.

Gross Margins

Gross profit margins increased on higher sales and well managed production efforts, which achieved improved unit volumes on stable production and related overhead costs across all product groups. With the primary sales season now complete, year to date gross margins are now considered representative of final outcomes.

Operating Costs

Total operating costs for the nine months ended June 30, 2005 amount to \$5.2 million as compared to \$4.2 million in the comparable prior year to date. As noted in earlier reports, a significant portion of this increase is attributable to legal fees incurred in defense of the Dow AgroSciences claim and the Company's counterclaim. The balance of the increase reflects increased salaries, sub contract costs, and overheads related to ongoing market expansion, product development, and expansion of field trial programs. Increased operating costs are offset by accrual of investment tax credits of \$0.30 million (2004 -\$0.40 million) that are estimated to be available based on qualifying research expenditures incurred to date.

Extraordinary Item

The most significant event of the quarter relates to a Court of Queen's Bench of Alberta judgment rendered in favor of Dow AgroSciences Canada Inc. ("Dow") stemming from a 1997 legal dispute related to certain Company products which had passed their expiry date. As a result, the Company has accrued an extraordinary item cost of \$1.19 million representing damages, interest, and estimated court costs of \$1.75 million, net of estimated tax recoveries of \$0.56 million. The Company has filed an appeal of this decision. All known and estimated liabilities in this matter have been recorded as a charge against current earnings, but are expected to be fully recoverable in the event of a successful appeal of this matter.

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-03	D-03	M-04	J-04	S-04	D-04	M-05	J-05
Sales	48	6	5,278	6,911	(67)	-	6,820	7,435
Earnings (loss) before extraordinary item	(1,264)	(1,333)	1,532	2,285	(1,071)	(1,262)	2,426	1,576
Earnings (loss)	(1,264)	(1,333)	1,532	2,285	(1,071)	(1,262)	2,426	386
Basic Earnings (loss) per share:								
Before extraordinary item	\$(0.38)	\$(0.41)	\$ 0.47	\$ 0.70	\$(0.33)	\$(0.37)	\$ 0.70	\$ 0.45
Net Earnings (loss)	\$(0.38)	\$(0.41)	\$ 0.47	\$ 0.70	\$(0.33)	\$(0.37)	\$ 0.70	\$ 0.11

Liquidity and Capital Resources

Cash flows for the three months ended June 30, 2005 increased as the majority of outstanding accounts receivable were settled (with balance of accounts collected shortly after the month end) and finished goods inventories were drawn down concurrent with 3rd quarter sales. The quarter also reflected an increase in accrued charges due to the accrual of the Dow judgment, and increased provision for inventory returns and royalty payments, which increase throughout the sales season and are settled in the 4th quarter. Year to date cash from operations is currently at \$6.3 million (2004 - \$4.3 million) reflecting a year over year gain of \$2.0 million.

Cash used in the quarter substantially relates to ongoing construction improvements. Year to date investment in new facilities, construction improvements, and other capital assets is now at \$4.8 million. Total construction activities and cost of improvements on the new property are now approximately 40% complete. As noted in the prior quarter, other uses of funds year to date relate to the payout of a \$1.8 million "return of capital" to shareholders, partially offset by proceeds of \$0.182 million realized on issuance of common shares. In total, year to date cash balances have declined by \$0.2 million since the beginning of the year and now amount to \$5.7 million as at June 30, 2005 (\$2004 - \$9.0 million), net of short term borrowing costs.

Subsequent to the end of June, the Company drew on the \$2.9 million mortgage financing to fund the building acquisition and continuing construction activities. This has restored cash balances to more historic levels which will be used to fund the balance of construction costs and fourth quarter operations, and to build up inventories in preparation for next year's production cycle. With the ability to draw on construction improvement financing of \$2.3 million, which is

expected to occur by end of the calendar year, the Company is well capitalized to settle the Dow judgment costs with no adverse effect on future operations

Related Party Transactions

Up to the end of the third quarter, the Company leased manufacturing and warehouse facilities from a company owned by a shareholder. Also, during the year, the Company incurred fees for consulting services provided by two Directors. 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 share issued (2004 3,288,761). 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:	3rd Quarter		Year to Date	
# of shares outstanding	2005	2004	2005	2004
Beginning of period	3,529,563	3,282,761	3,415,761	3,230,141
Issued pursuant to exercise of options	-	6,000	113,802	58,620
End of period	3,529,563	3,288,761	3,529,563	3,288,761

Capital Stock Transactions:	3rd Quarter		Year to Date	
Capital stock (\$000's)	2005	2004	2005	2004
Beginning of period	4,079	5,463	5,662	5,381
Proceeds on exercise of options	-	9	182	91
Return of capital distribution	-	-	(1,765)	-
End of period	4,079	5,472	4,079	5,472

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

With the primary sales season now complete, annual earnings results can now be more easily forecast. Based on current forecasts of fourth quarter operating costs, which primarily focus on building up inventories in preparation for next year's business cycle, the Company estimates annual net earnings before extraordinary item will approximate \$0.45 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, 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 June 30, 2005 and the Consolidated Statement of Earnings and Retained Earnings and Cash Flows for the nine months ended June 30, 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 June 30, 2005
(unaudited)
(000's)

	As At		
	June 30 2005	June 30 2004	September 30 2004 (audited)
Current Assets			
Cash and short-term deposits	\$ 5,901	\$ 9,015	\$ 5,932
Accounts receivable	1,801	1,860	253
Inventory (Note 5)	773	640	1,796
Prepays and deposits	120	129	147
	<u>8,595</u>	<u>11,644</u>	<u>8,128</u>
Property, Plant and Equipment	5,466	854	894
Patents and Trademarks	127	121	119
	<u>5,593</u>	<u>975</u>	<u>1,013</u>
	<u>\$ 14,188</u>	<u>\$ 12,619</u>	<u>\$ 9,141</u>
Current Liabilities			
Bank indebtedness (Note 8)	\$ 200	\$ -	\$ -
Accounts payable and accrued charges	5,865	3,263	1,293
Income taxes payable	430	600	-
Deferred revenue	41	121	109
Current portion long-term debt	44	67	64
	<u>6,580</u>	<u>4,051</u>	<u>1,466</u>
Long-Term Debt	25	68	56
	<u>6,605</u>	<u>4,119</u>	<u>1,522</u>
Shareholders' Equity			
Share capital			
Authorized: unlimited number of common shares (Note 6)	4,079	5,472	5,662
Retained earnings	3,504	3,028	1,957
	<u>7,583</u>	<u>8,500</u>	<u>7,619</u>
	<u>\$ 14,188</u>	<u>\$ 12,619</u>	<u>\$ 9,141</u>

(see accompanying notes)



Philom Bios Inc.
Consolidated Statement of Earnings and Retained Earnings
For the nine months ended June 30, 2005 and 2004
(unaudited)
(000's) except per-share amounts

	Three months ended		Nine months ended	
	June 30		June 30	
	2005	2004	2005	2004
Sales	\$ 7,435	\$ 6,911	\$ 14,255	\$ 12,195
Cost of sales	<u>3,239</u>	<u>2,447</u>	<u>5,002</u>	<u>4,466</u>
Gross margin	<u>4,196</u>	<u>4,464</u>	<u>9,253</u>	<u>7,729</u>
Expenses				
Research and business development, net	609	187	1,305	938
Marketing and sales	780	650	2,382	2,188
General and administrative	358	451	1,437	1,174
Other expenses (income)	<u>45</u>	<u>(43)</u>	<u>98</u>	<u>(59)</u>
	<u>1,792</u>	<u>1,245</u>	<u>5,222</u>	<u>4,241</u>
Earnings from operations and before income taxes and extraordinary item	2,404	3,219	4,031	3,488
Income taxes before extraordinary item (Note 3)				
Current expense	<u>828</u>	<u>934</u>	<u>1,291</u>	<u>1004</u>
Net earnings before extraordinary item	1,576	2,285	2,740	2,484
Extraordinary item net of income tax recovery of \$560 (Note 9)	<u>(1,190)</u>	<u>-</u>	<u>(1,190)</u>	<u>-</u>
Net earnings	<u>\$ 386</u>	<u>\$ 2,285</u>	1,550	2,484
Retained earnings, beginning of period			<u>1,954</u>	<u>544</u>
Retained Earnings, end of period			<u>\$ 3,504</u>	<u>\$ 3,028</u>
Basic earnings per share				
Net earnings from operations (Note 6)	\$ 0.45	\$ 0.70	\$ 0.79	\$ 0.77
Extraordinary item (Note 9)	<u>(0.34)</u>	<u>-</u>	<u>(0.34)</u>	<u>-</u>
Net earnings	<u>\$ 0.11</u>	<u>\$ 0.70</u>	<u>\$ 0.45</u>	<u>\$ 0.77</u>

(see accompanying notes)



Philom Bios Inc.
Consolidated Statement of Cash Flows
For the nine months ended June 30, 2005 and 2004
(unaudited)
(000's) except per-share amounts

	Three months ended June 30		Nine months ended June 30	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM (USED IN) THE FOLLOWING				
Operating				
Net earnings	\$ 386	\$ 2,285	\$ 1,550	\$ 2,484
Add back non-cash expenses:				
Depreciation and amortization	<u>110</u>	<u>86</u>	<u>279</u>	<u>239</u>
	496	2,371	1,829	2,723
Changes in non-cash working capital:				
Accounts receivable	635	1,349	(1,513)	(1,719)
Inventories	2,073	1,522	1,023	951
Prepays and deposits	34	6	27	(42)
Accounts payable and accrued charges	3,086	9	4,533	1,797
Income taxes payable	279	600	430	600
Deferred revenue	<u>(2,560)</u>	<u>(1,612)</u>	<u>(67)</u>	<u>(53)</u>
	4,043	4,245	6,262	4,257
Investing				
Additions to property, plant and equipment	(1,096)	(25)	(4,846)	(190)
Additions to patents and trademarks	<u>(13)</u>	<u>(13)</u>	<u>(13)</u>	<u>(13)</u>
	(1,109)	(38)	(4,859)	(203)
Financing				
Repayment of long term debt	(17)	(16)	(51)	(107)
Return of capital	-	-	(1,765)	-
Proceeds from issuance of common shares	<u>-</u>	<u>9</u>	<u>182</u>	<u>91</u>
	(17)	(7)	(1,634)	(16)
NET INCREASE (DECREASE) IN CASH	2,917	4,200	(231)	4,038
CASH POSITION, BEGINNING OF PERIOD	2,784	4,815	5,932	4,977
CASH POSITION, END OF PERIOD	<u>\$ 5,701</u>	<u>\$ 9,015</u>	<u>\$ 5,701</u>	<u>\$ 9,015</u>

(see accompanying notes)



Philom Bios Inc.
Notes to Interim Consolidated Financial Statements
For the nine months ended June 30, 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, 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 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 \$1,291 before extraordinary items and \$731 after recovery for extraordinary items (June 2004 - \$1,004) is based on year to date earnings and estimated average annual income tax rate.

Federal and provincial research and development tax credits of \$300 (June 2004 - \$404) were used to reduce taxes payable. The tax credits were estimated using year to date research and development expenditures and estimated average investment tax credit rates.



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

	June 30 <u>2005</u>	June 30 <u>2004</u>	September 30 <u>2004</u> (audited)
Raw materials & work in progress	\$ 421	\$ 425	\$ 1,588
Finished goods	<u>352</u>	<u>215</u>	<u>208</u>
	<u>\$ 773</u>	<u>\$ 640</u>	<u>\$ 1,796</u>

6. SHARE CAPITAL

As at June 30, 2005, 3,529,563 (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: nine months ending June 30, 2005 – 3,474,876.

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

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



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Notes to Interim Consolidated Financial Statements
For the nine months ended June 30, 2005
(unaudited)
(000's) except share and per-share amounts

7. PROVISION FOR INVENTORY SUPPORT

The Company has provided for returns based on estimated percentages. A provision of \$2,058 (June 2004 - \$1,850) 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. BANK INDEBTEDNESS

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

9. EXTRAORDINARY ITEM

As a result of a Court of Queen's Bench of Alberta judgment rendered in favor of Dow AgroSciences Canada Inc. stemming from a 1997 legal dispute related to certain Company products which had passed their expiry date, the Company has accrued an extraordinary item cost of \$1,190 representing damages, interest, and estimated court costs of \$1,750, net of estimated tax recoveries of \$560. The Company has filed an appeal of this decision. All known and estimated liabilities in this matter have been recorded as a charge against current earnings, but are expected to be fully recoverable in the event of a successful appeal of this matter.

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. RELATED PARTY TRANSACTIONS

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



Philom Bios Inc.
Notes to Interim Consolidated Financial Statements
For the nine months ended June 30, 2005
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12. SUBSEQUENT EVENT

During the quarter, the Company entered into certain credit facility agreements for long term financing on the Company's recently acquired property and planned improvements to the site. Additionally, these credit facilities provide for operating lines of credit as required throughout the business cycle. Subsequent to the quarter, the Company has drawn \$2,880 on these credit facilities.