



CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED JUNE 30, 2004

(Unaudited)



Management Discussion and Analysis

Revenues

Results for the third quarter ended June 30, 2004, show year to date consolidated revenues of \$12,195,596. This results in net earnings for the nine months ended of \$2,484,015 or \$0.77 per share. This compares favourably with the prior year comparable period, which reported net earnings of \$1,317,050 on much lower sales. Year to date results reflect the interim earnings peak for the year as most sales are realized over the second and third quarter. Over the balance of the year, earnings will decline by approximately \$1.2 million, representing the amount of final quarter's operating costs, net of adjustment for income taxes.

Operations

Total operating costs for the quarter amounted to \$1,245,166 as compared to \$1,778,551 in the comparable prior quarter. Year to date operating costs now total \$4,241,728 (2003 - \$4,733,415). The year over year reduction is mainly due to a \$404,000 accrual in the current quarter for investment tax credits which are expected to be realized on eligible research and development efforts, a key part of our ongoing growth investment. Certain departmental costs did increase over the prior year's quarter reflecting the planned effect of personnel changes and some expansion in seasonal costs of field test programs, but offset, in part, by reduced marketing costs due to timing and level of major advertising and promotional activities as compared to last year. Over the balance of year, Management will continue to maintain close control over ongoing operating expenses even as we expect total overheads to remain within budget with no significant variation.

Liquidity and Capital Resources

During the third quarter, the Company's cash from operations increased by \$4,245,443, reflecting the success of the sales season that commenced in the second quarter. Most cash realized in the third quarter was from the draw down of production inventories and collection of the majority of trade receivables. Third quarter results also reflect additional cash proceeds of \$8,952 from the issuance of common shares on the exercise of options, offset by cash outflows for investment in capital assets of \$38,505 and further pay down of long-term debt of \$15,964. In total, cash increased in the quarter by \$4,199,926 and as at June 30, 2004, total cash assets are \$9,014,930. Immediately following the end of the quarter, cash increased by a further \$1.8 million as the balance of receivables was realized. However, cash reserves will be reduced over the balance of the year as the Company draws down cash to fund fourth quarter operations and begin next year's production build up cycle.

Outlook Update

With the primary selling season now complete, the Company has achieved targeted year end revenues. Once year end results are finalized, the Company expects to report both gains in market share, and growth in key markets.



Some uncertainty on final earnings outcomes will remain since not all inventory return provisions are finalized and the Company may still benefit from fall season sales efforts. However, assuming fourth quarter operating costs remain within estimate; year end earnings will approximate \$1.2 million. Looking ahead, the Company is now focused on its forward business planning process and preparation for next year's production cycle.

About Philom Bios Inc.

Located in Saskatoon, Canada with over 60 employees in a wide range of research, manufacturing, marketing and management positions, Philom Bios is the leading inoculant company in Western Canada. Philom Bios is the only Canadian-owned company with high-value inoculants serving the needs of Prairie farmers. Philom Bios has a 20-year commitment to western farmers through a dynamic partnership with distributors and leading retailers. Our commitment is to serve the needs of these individual customers by delivering high-value inoculants.

August 12, 2004

John Cross
CEO, Chairman

David Cortens
Chief Financial Officer

Philom Bios Inc.
Consolidated Balance Sheet
as at June 30, 2004
(unaudited)



	As At		
	June 30 2004	June 30 2003	September 30 2003 (audited)
Current Assets			
Cash and short-term deposits	\$ 9,014,930,	\$ 5,216,415	\$ 4,977,003
Accounts receivable	1,860,264	3,680,143	144,726
Inventory (Note 5)	639,663	835,105	1,591,014
Prepays and deposits	129,252	75,092	87,324
	<u>11,644,109</u>	<u>9,806,765</u>	<u>6,800,067</u>
Property, Plant and Equipment			
	854,034	1,019,755	901,075
Patents and Trademarks	<u>120,771</u>	<u>110,363</u>	<u>109,562</u>
	<u>974,805</u>	<u>1,130,118</u>	<u>1,010,637</u>
	<u>\$ 12,618,914</u>	<u>\$ 10,936,883</u>	<u>\$ 7,810,704</u>
Current Liabilities			
Bank loan	\$ -	\$ 500,000	\$ -
Accounts payable and accrued charges	3,263,523	2,759,785	1,469,446
Income tax payable	599,704	-	-
Deferred revenue	120,560	222,941	173,539
Current portion long-term debt	67,566	94,128	96,201
	<u>4,051,353</u>	<u>3,576,854</u>	<u>1,739,186</u>
Long-Term Debt			
	<u>67,579</u>	<u>170,974</u>	<u>146,131</u>
	<u>4,118,932</u>	<u>3,747,828</u>	<u>1,885,317</u>
Shareholders' Equity			
Share capital			
Authorized: unlimited number of common shares (Note 6)	5,471,679	5,381,097	5,381,097
Retained earnings	3,028,303	1,807,958	544,290
	<u>8,499,982</u>	<u>7,189,055</u>	<u>5,925,387</u>
	<u>\$ 12,618,914</u>	<u>\$ 10,936,883</u>	<u>\$ 7,810,704</u>

(see accompanying notes)



Philom Bios Inc.
Consolidated Statement of Earnings and Retained Earnings
for the nine months ended June 30, 2004 and 2003
(unaudited)

	Three months ended		Nine months ended	
	June 30		June 30	
	2004	2003	2004	2003
Sales	\$ 6,911,330	\$ 5,338,107	\$ 12,195,596	\$ 9,476,745
Cost of sales	<u>2,446,857</u>	<u>1,547,938</u>	<u>4,466,149</u>	<u>3,426,280</u>
Gross margin	<u>4,464,473</u>	<u>3,790,169</u>	<u>7,729,447</u>	<u>6,050,465</u>
Expenses				
Research and development, net	186,759	448,193	937,996	1,298,855
Marketing and sales	649,958	824,643	2,188,328	2,307,210
General and administrative	451,206	432,754	1,174,392	1,045,408
Other expenses (income)	<u>(42,757)</u>	<u>72,961</u>	<u>(58,988)</u>	<u>81,942</u>
	<u>1,245,166</u>	<u>1,778,551</u>	<u>4,241,728</u>	<u>4,733,415</u>
Earnings from operations and before income taxes	3,219,307	2,011,618	3,487,719	1,317,050
Income taxes (Note 3)				
Current	<u>934,350</u>	<u>-</u>	<u>1,003,704</u>	<u>-</u>
Net earnings	<u>2,284,957</u>	<u>2,011,618</u>	2,484,015	1,317,050
Retained earnings, beginning of period			<u>544,288</u>	<u>490,908</u>
Retained earnings, end of period			<u>\$ 3,028,303</u>	<u>\$ 1,807,958</u>
Basic earnings per share (Note 6) (see accompanying notes)	\$ 0.70	\$ 0.62	\$ 0.77	\$ 0.41



Philom Bios Inc.
Consolidated Statement of Cash Flows
for the nine months ended June 30, 2004 and 2003
(unaudited)

	Three months ended June 30		Nine months ended June 30	
	2004	2003	2004	2003
CASH FLOWS FROM (USED IN) THE FOLLOWING ACTIVITIES				
Operating				
Net earnings	\$ 2,284,957	\$ 2,011,618	\$ 2,484,015	\$ 1,317,050
Add back non-cash expenses:				
Depreciation and amortization	86,061	88,845	238,619	252,256
	<u>2,371,018</u>	<u>2,100,463</u>	<u>2,722,634</u>	<u>1,569,306</u>
Changes in non-cash working capital:				
Accounts receivable	1,349,115	939,565	(1,719,197)	(3,408,404)
Inventories	1,522,071	797,797	951,351	658,607
Prepays and deposits	6,511	8,349	(41,928)	53,320
Accounts payable and accrued charges	9,074	908,188	1,797,734	1,661,205
Income taxes payable	599,704	-	599,704	200,000
Deferred revenue	(1,612,050)	(4,148)	(52,979)	(35,360)
	<u>4,245,443</u>	<u>4,750,214</u>	<u>4,257,319</u>	<u>698,674</u>
Investing				
Additions to property, plant and equipment	(25,054)	(89,850)	(189,335)	(239,790)
Additions to patents and trademarks	(13,451)	53	(13,451)	53
	<u>(38,505)</u>	<u>(89,797)</u>	<u>(202,786)</u>	<u>(239,737)</u>
Financing				
Repayment of long-term debt	(15,964)	(22,280)	(107,188)	(65,413)
Proceeds from issuance of common shares	8,952	16,320	90,582	29,760
	<u>(7,012)</u>	<u>(5,960)</u>	<u>(16,606)</u>	<u>(35,653)</u>
NET INCREASE IN CASH	4,199,926	4,654,457	4,037,927	423,284
CASH POSITION, BEGINNING OF PERIOD	4,815,004	61,968	4,977,003	4,293,141
CASH POSITION, END OF PERIOD	\$ 9,014,930	\$ 4,716,425	\$ 9,014,930	\$ 4,716,425
Supplemental Disclosure of Cash Flow Information				
Interest paid	\$ 3,052	\$ 10,754	\$ 7,857	\$ 27,846
Income taxes paid	\$ -	\$ -	\$ -	\$ -
Income taxes received	\$ -	\$ -	\$ -	\$ 200,000

(see accompanying notes)



Philom Bios Inc.
Notes to the Interim Consolidated Financial Statements
for the nine months ended June 30, 2004
(unaudited)

1. DESCRIPTION OF BUSINESS

Philom Bios Inc. is incorporated under the Business Corporations Act of 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, 2003 Annual Report.

These statements are presented on a consolidated basis. 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 expense of \$1,003,704 (June 2003 – Nil) is based on current quarter earnings and estimated average annual income tax rate.

Federal and provincial research and development tax credits of \$404,000 (June 2003 \$Nil) were used to reduce taxes payable to \$599,704. The tax credits were estimated using year to date research and development expenditures and estimated average investment tax credit rates.

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 the 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, 2004, the Company has foreign currency forward contracts to sell \$500,000 US Dollars at an average exchange rate of 1.3077 Canadian. These contracts mature in September 2004.

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

Philom Bios Inc.
Notes to the Interim Consolidated Financial Statements
for the nine months ended June 30, 2004
(unaudited)

5. INVENTORY

	June 30 2004	June 30 2003	September 30 2003 (audited)
Raw materials & work in progress	\$ 424,373	\$ 778,155	\$ 1,529,392
Finished goods	<u>215,290</u>	<u>56,950</u>	<u>61,622</u>
	<u>\$ 639,663</u>	<u>\$ 835,105</u>	<u>\$ 1,591,014</u>

6. SHARE CAPITAL

As at June 30, 2004, 3,288,761 (September 30, 2003 – 3,230,141) shares were issued and outstanding. Earnings per share are calculated using the weighted average number of shares outstanding as follows: three months ending June 30, 2004 – 3,287,310, nine months ending June 30, 2004 – 3,232,774.

The Company has employee, officer and director stock option plans. These plans are more fully described in the 2003 Annual Report.

During the quarter 6,000 options were exercised to purchase shares for cash proceeds of \$9,000. During the quarter no options were issued and no options expired.

7. PROVISION FOR INVENTORY SUPPORT

The Company has provided for sales returns based on customer reports received to date and estimated return percentages. Accordingly, \$1,850,000 (2003 – \$1,473,978) has been deducted from gross revenues in the calculation of sales for the financial statements. This provision may be adjusted once all returns are reported following the end of the selling season.

8. 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.

9. RELATED PARTY TRANSACTION

The Company leases manufacturing and warehouse facilities from a company owned by a shareholder. This transaction is in the normal course of operations and is measured at the exchange amount, which represents market value.

10. COMPARATIVE FIGURES

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