ONCOLYTICS BIOTECH INC
Form 6-K
August 05, 2004

Table of Contents

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934

For the month of August 2004

Commission File Number 000-31062

Oncolytics Biotech Inc.

(Translation of registrant s name into English)

Suite 210, 1167 Kensington Crescent NW
Calgary, Alberta, Canada T2N 1X7
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F o Form 40-F x

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): _____

Note: Regulation S-T Rule 101(b)(1) only permits the submission in paper of a Form 6-K if submitted solely to provide an attached annual report to security holders.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): _____

Note: Regulation S-T Rule 101(b)(7) only permits the submission in paper of a Form 6-K if submitted to furnish a report or other document that the registrant foreign private issuer must furnish and make public under the laws of the jurisdiction in which the registrant is incorporated, domiciled or legally organized (the registrant s home country), or under the rules of the home country exchange on which the registrant s securities are traded, as long as the report or other document is not a press release, is not required to be and has not been distributed to the registrant s security holders, and, if discussing a material event, has already been the subject of a Form 6-K submission or other Commission filing on EDGAR.

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes o No x

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule12g3-2(b): 82 -

TABLE OF CONTENTS

Table of Contents

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Oncolytics Biotech Inc.
(Registrant)

Date August 5, 2004

By: /s/ Douglas A. Ball
Douglas A. Ball
Chief Financial Officer

Table of Contents

210, 1167 Kensington Cr. N.W.
Calgary, Alberta
Canada T2N 1X7

FOR IMMEDIATE RELEASE

Oncolytics Biotech Inc. Announces 2004 Second Quarter Results

CALGARY, AB, August 5, 2004 - Oncolytics Biotech Inc. (Oncolytics) (TSX:ONC, NASDAQ:ONCY) today announced its financial results for the three and six-month periods ending June 30, 2004.

Second Quarter Highlights:

Commenced enrolment in a Phase I systemic (intravenous) administration clinical trial at the Royal Marsden Hospital, Surrey, U.K.

Strengthened the Board of Directors with the addition of Mr. J. Mark Lievonen, President of Aventis Pasteur

Completed a $6.73 million private placement with a European institutional investor. With this private placement, combined with $4.0 million received from the exercise of warrants and options, the Company believes it has sufficient reserves to fund its activities into 2007.

The commencement of our first systemic administration trial is a significant milestone for the Company in its development of REOLYSIN® as a potential cancer therapeutic, said Dr. Brad Thompson, President and CEO of Oncolytics.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion and analysis should be read in conjunction with the unaudited financial statements of Oncolytics Biotech Inc. (Oncolytics or the Company) as at and for the three and six months ended June 30, 2004 and 2003, and should also be read in conjunction with the audited financial statements and Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) contained in Oncolytics annual report for the year ended December 31, 2003. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

FORWARD-LOOKING STATEMENTS

The following discussion contains forward-looking statements, within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements, including the Company s belief as to the potential of REOLYSIN® as a cancer therapeutic, the Company s expectation regarding the adequacy of its existing capital resources, and the Company s expectations as to the success of its research and development programs in 2004 and beyond, future financial position, business strategy and plans for future operations, and statements that are not historical facts, involve known and unknown risks and uncertainties, which could cause the Company s actual results to differ materially from those in the forward-looking statements. Such risks and uncertainties include, among others, the availability of funds and resources to pursue research and development projects, the efficacy of

Table of Contents

REOLYSIN® as a cancer treatment, the success and timely completion of clinical studies and trials, the Company s ability to successfully commercialize REOLYSIN®, uncertainties related to the research and development of pharmaceuticals, uncertainties related to competition, changes in technology, the regulatory process and general changes to the economic environment. Investors should consult the Company s quarterly and annual filings with the Canadian and U.S. securities commissions for additional information on risks and uncertainties relating to the forward-looking statements. Forward-looking statements are based on assumptions, projections, estimates and expectations of management at the time such forward-looking statements are made, and such assumptions, projections, estimates and/or expectations could change or prove to be incorrect or inaccurate. Investors are cautioned against placing undue reliance on forward-looking statements. The Company does not undertake to update these forward-looking statements.

OVERVIEW

Oncolytics Biotech Inc. is a Development Stage Company

Since its inception in April of 1998, Oncolytics Biotech Inc. (the Company) has been a development stage company and has focused its research and development efforts on the development of REOLYSIN®, its potential cancer therapeutic. The Company has not been profitable since its inception and expects to continue to incur substantial losses from its research and development. The Company does not expect to generate significant revenues until, if and when, its cancer product becomes commercially viable.

General Risk Factors

Prospects for biotechnology companies in the research and development stage should generally be regarded as speculative. It is not possible to predict, based upon studies in animals, or early studies in humans, whether a new therapeutic will ultimately prove to be safe and effective in humans, or whether necessary and sufficient data can be developed through the clinical trial process to support a successful product application and approval.

If a product is approved for sale, product manufacturing at a commercial scale and significant sales to end users at a commercially reasonable price may not be successful. There can be no assurance that the Company will generate adequate funds to continue development, or will ever achieve significant revenues or profitable operations. Many factors (e.g. competition, patent protection, appropriate regulatory approvals) can influence the revenue and product profitability potential.

In developing a product for approval, the Company will rely upon its employees, contractors, consultants and collaborators and other third party relationships, including the ability to obtain appropriate product liability insurance. There can be no assurance that these reliances and relationships will continue as required.

In addition to developmental and operational considerations, market prices for securities of biotechnology companies generally are volatile, and may or may not move in a manner consistent with the progress being made by the Company.

Highlights

During the second quarter of 2004, the Company s net loss was $3,191,888 compared to $3,911,473 for the second quarter of 2003. The decrease in the Company s net loss is mainly due to the loss on sale of investment in Transition Therapeutics Inc. (TTH) of $2,156,685 that occurred in 2003. This decrease was offset by an increase in expenses for the three month period ending June 30, 2004 associated with the Company s operations. Specifically, manufacturing and related process development expenses increased in the second quarter of 2004 compared to 2003 as the Company

has increased its production of

Table of Contents

REOLYSIN® in order to supply its clinical trial program. As well, the Company s systemic (intravenous) delivery clinical trial in the United Kingdom (U.K.) commenced patient enrolment in the second quarter of 2004 increasing clinical trial costs in the second quarter of 2004 compared to 2003. Also, the Company s pre-clinical trial expenses increased in support of future clinical trial applications that include other jurisdictions and methods of application. Finally, the Company recorded a non-cash expense for stock based compensation related to stock options granted in the second quarter of 2004.

The Company s cash balance continued to improve through the closing of a private placement and the exercise of warrants and options. During the six months ended June 30, 2004, the Company received additional cash proceeds from financing activities of $10,264,784. The Company exited the second quarter of 2004 with cash and short-term investments of $25,522,728 compared to $20,752,735 as at December 31, 2003.

SECOND QUARTER RESULTS OF OPERATIONS
(for the three months ended June 30, 2004 and 2003)

Net loss for the three month period ended June 30, 2004 was $3,191,888 compared to $3,911,473 for 2003. The decrease in the Company s net loss in the second quarter of 2004 was mainly due to the loss from sale of investment in TTH of $2,156,685 that occurred in 2003 and increases during the second quarter of 2004 in the Company s operating activities as follows:

Research and Development Expenses (R&D)

	2004 $	**2003 $**
Manufacturing and related process development expenses	**810,748**	422,626
Clinical trial expenses	**167,051**	78,145
Pre-clinical trial expenses	**334,603**	80,141
Other R&D expenses	**183,532**	267,809
Research and development expenses	**1,495,934**	848,721

For the second quarter of 2004, R&D increased to $1,495,934 compared to $848,721 for the second quarter of 2003. The increase in R&D was due to the following:

Manufacturing & Related Process Development

During the second quarter of 2004, the Company continued to focus on the production of REOLYSIN® in order to supply its R&D activity. As well, additional production costs were incurred relating to the technology transfer and set up costs associated with the Company s second manufacturer.

Clinical Trial Programs

The Company s clinical trial expenses increased to $167,051 in the second quarter of 2004 compared to $78,145 for the second quarter of 2003. The increase in the second quarter of 2004 relates to the Company commencing patient enrolment in and supporting its systemic (intravenous) delivery clinical trial in the United Kingdom.

Table of Contents

Pre-Clinical Trial Expenses

During the second quarter of 2004, the Company incurred pre-clinical trial costs associated with toxicology and equivalency studies being performed in support of future clinical trial applications. These types of studies were limited in the second quarter of 2003.

Operating Expenses

	2004 $	**2003 $**
Salary, insurance and other office expenses	**344,624**	290,616
Public company and other operating expenses	**615,702**	424,143
	960,326	714,759

For the second quarter of 2004, the Company s operating expenses increased to $960,326 compared to $714,759 for the second quarter of 2003. Public company and other operating costs increased in the second quarter of 2004 compared to 2003 reflecting the increased costs associated with the preparation of the Company s annual filings, annual general meeting and shareholder mail outs plus additional expenses incurred in investor relations and business development.

Stock Based Compensation

	2004 $	**2003 $**
Stock based compensation	**734,670**	68,318

During the second quarter of 2004, the Company recorded stock based compensation of $734,670 associated with the granting of stock options to its employees, directors, and certain consultants. Stock based compensation recorded in 2003 related to previously granted options that vested in the second quarter of 2003 and options granted to consultants.

YEAR TO DATE RESULTS OF OPERATIONS
(for the six months ended June 30, 2004 and 2003)

Net loss for the six month period ended June 30, 2004 was $5,868,124 compared to $5,025,787 for 2003. The increase in the Company s net loss was due to the following:

Research and Development Expenses (R&D)

	2004 $	2003 $
Manufacturing and related process development expenses	**2,187,178**	488,735
Clinical trial expenses	**292,696**	88,787
Pre-clinical trial expenses	**513,562**	137,966
Other R&D expenses	**456,895**	612,868
Research and development expenses	**3,450,331**	1,328,356

For the six month period ending June 30, 2004, R&D increased to $3,450,331 compared to $1,328,356 for 2003. The increase in R&D was due to the following:

Table of Contents

Manufacturing & Related Process Development

In 2004 the Company continued to focus on the production of REOLYSIN® in order to supply its existing and planned R&D activity. As well, the Company took steps to mitigate the risk of economic dependence as a result of having only one supplier of REOLYSIN®. Consequently, almost 75% of the Company s manufacturing and related process development expenses incurred in 2004 related to the production of REOLYSIN® compared to only 8% in 2003. The Company s manufacturing expenses in 2004 also include technology transfer and set up costs associated with the addition of a second supplier.

The remaining manufacturing and related process development costs incurred in 2004 and almost all of these costs incurred in 2003 relate to process development. During the first six months of 2003 the Company was completing the development of its manufacturing process and also commenced the development of its viral and cell banks. Consequently, 85% of the Company s manufacturing and related process development expenses incurred in 2003 related to these activities compared to only 19% in 2004.

For the remainder of 2004, the Company expects that it will continue to produce REOLYSIN® and that a majority of these costs will relate directly to manufacturing. As well, future manufacturing costs may be impacted by the need to supply the clinical trials to be run in accordance with the agreement between the U.S. National Cancer Institute (NCI) and the Company.

Clinical Trial Programs

The Company s clinical trial expenses increased to $292,696 for the six month period ending June 30, 2004 compared to $88,787 in 2003. The increase in clinical trial expenses relates mainly to the costs associated with the Company s systemic (intravenous) delivery clinical trial in the United Kingdom. The Company also continues to incur expenses related to the Canadian malignant glioma clinical trial.

For the remainder of 2004, the Company expects that clinical trial expenses will continue to be incurred as enrolment continues in the systemic (intravenous) delivery clinical trial. As well, the Company expects that its clinical trial costs may increase as it continues to try and expand its clinical trial program into other jurisdictions.

Pre-Clinical Trial Expenses

The Company s pre-clinical trial expenses increased to $513,562 for the six month period ending June 30, 2004 compared to $137,966 in 2003. Pre-clinical costs include toxicology studies and are incurred by the Company in support of expanding its clinical trial program into other jurisdictions and other applications.

Operating Expenses

	2004 **$**	**2003** **$**
Salary, insurance and other office expenses	**723,040**	505,893
Public company and other operating expenses	**938,460**	730,420
	1,661,500	1,236,313

For the six month period ending June 30, 2004, the Company s operating expenses increased to $1,661,500 compared to $1,236,313 for the six month period ending June 30, 2003. Salary, insurance and other office expenses increased to $723,040 for the six month period ending June 30, 2004 from $505,893 in 2003 due to the increase in staff levels and insurance premiums that commenced in the second quarter of 2003. Public company and other operating costs increased to $938,460 for the six month period

Table of Contents

ending June 30, 2004 from $730,420 in the first six months of 2003 reflecting the increased costs associated with the preparation of the Company s annual filings, annual general meeting and shareholder mail outs plus additional expenses incurred in investor relations and business development.

Sale of Investments

	2004 $	2003 $
Gain on sale of investment in BCY LifeSciences Inc. (BCY)	**47,002**	
Loss on sale of investment in TTH		2,156,685

For the six month period ending June 30, 2004 the Company sold 697,945 common shares of BCY for net cash proceeds of $133,609. This resulted in an accounting gain of $47,002. As at June 30, 2004, the Company owned 200,000 common share of BCY with an estimated market value of $20,000. These remaining shares are held in escrow and will be released over the next two years.

For the six month period ending June 30, 2003, the Company sold its investment in TTH for net cash proceeds of $2,552,695 resulting in a recorded loss of $2,156,685.

Commitments

As at June 30, 2004, the Company has committed to payments totaling $766,500 for activities primarily related to product manufacturing and continued toxicology related work. The Company anticipates that these committed payments will occur in 2004. All of these committed payments are considered to be part of the Company s normal course of business.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

As at June 30, 2004, the Company had cash of $25,522,728 (including cash, cash equivalents and short-term investments) and a working capital position of $25,234,266 compared to $20,752,735 and $20,088,868 respectively as at December 31, 2003. During the second quarter of 2004, the Company continued to improve its cash position through a private placement of 1,077,100 units at an average price of $6.25 per unit. Net cash proceeds after issue costs were $6,223,763 and each unit was comprised of 1,077,100 common shares and 538,550 common share purchase warrants. Each whole common share purchase warrant entitles the holder to acquire one common share of the capital of the Company upon payment of $7.75 per share until October 7, 2005. The Company also received cash proceeds from the exercise of warrants from previously closed financings of $3,300,038 and from the exercise of stock options of $740,983. Consequently, for the six month period ending June 30, 2004, the Company has received a net amount of $10,264,784. This increase in the Company s cash position has been offset by cash outflows from operating activities of $5,194,579 and purchases of intellectual property and other assets of $433,821.

The Company desires to maintain adequate cash and short-term investment reserves to support its planned activities which include its clinical trial program, production manufacturing, and its intellectual property expansion and protection as well as administrative activities. The Company believes that its existing capital resources are adequate to fund its current plans for research and development activities into 2007 without presuming the further exercise of outstanding warrants and options. In the event that the Company chooses to seek additional capital, the Company will look to fund additional capital

Table of Contents

requirements through the issue of additional equity as well as potential partnering or licensing opportunities. The Company recognizes the challenges and uncertainty inherent in the capital markets and the potential difficulties it might face in today s environment. Market prices for securities in biotechnology companies are volatile and the ability to raise funds will be dependent on a number of factors, including the progress of R&D, availability of clinical trial information, and general market conditions.

Capital Expenditures

During the six month period ending June 30, 2004, the Company spent $425,928 on intellectual property compared to $595,147 in 2003. The difference relates to variances in filing fees on existing patent applications.

SUMMARY OF QUARTERLY RESULTS

The following unaudited quarterly information is presented in thousands of dollars except for per share amounts:

	2004		2003				2002	
	June[2]	March[2]	Dec.[2]	Sept.	June[2]	March	Dec.	Sept.
Revenue[1]	183	117	127	102	41	43	44	53
Net loss[3]	3,192	2,676	1,696	1,823	3,911	1,114	1,542	1,990
Loss per common share[3]	$ 0.11	$ 0.10	$ 0.06	$ 0.07	$ 0.17	$ 0.05	$ 0.07	$ 0.09
Total assets[4], [6]	31,221	25,435	26,051	21,532	18,815	16,702	17,968	17,331
Total cash[5], [6]	25,522	20,298	20,753	15,843	13,486	6,887	8,319	7,746
Total long-term debt[7]	150	150	150	150	150	150	150	150
Cash dividends declared[8]	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

(1) Revenue is comprised of interest income.

(2) Included in net loss and net loss per share in March 2004 and December 2003 is a gain on sale of investment of $47,648 and $264,453 respectively and in June 2004 and 2003 is a loss from sale of investments of $646 and $2,156,685 respectively.

(3) Included in net loss and net loss per share for 2002 is a future income tax recovery of $647,618 (2004 and 2003 nil).

(4) Subsequent to the acquisition of the Company by SYNSORB in April 1999, the Company applied push down accounting. See note 2 to the audited financial statements for 2003.

(5) Included in total cash are cash, cash equivalents and short-term investments.

(6) The Company issued 2,163,709 common shares for cash proceeds of $10,264,784 in 2004 (2003 5,062,978 common shares for $16,004,981 and 2002 1,040,000 common shares for $1,803,877).

(7)

The long-term debt recorded in 2004, 2003 and 2002 represents repayable loans from the Alberta Heritage Foundation.

(8) The Company has not declared or paid any dividends since incorporation.

OTHER MD&A REQUIREMENTS

The Company has 29,452,618 common shares outstanding at July 31, 2004. If all of the Company s warrants and options were exercised the Company would have 35,234,077 common shares outstanding.

Table of Contents

Oncolytics Biotech Inc.

BALANCE SHEETS

As at,

	June 30, 2004 $ (unaudited)	December 31, 2003 $ (audited)*
ASSETS		
Current		
Cash and cash equivalents	**3,058,642**	2,641,127
Short-term investments	**22,464,086**	18,111,608
Accounts receivable	**63,618**	64,224
Prepaid expenses	**566,331**	156,837
	26,152,677	20,973,796
Capital assets	**5,043,344**	4,965,379
Investments *[note 2]*	**24,818**	111,425
	31,220,839	26,050,600
LIABILITIES AND SHAREHOLDERS EQUITY		
Current		
Accounts payable and accrued liabilities	**918,411**	884,928
Alberta Heritage Foundation loan	**150,000**	150,000
Shareholders equity		
Share capital *[note 3]*		
Authorized: unlimited		
Issued: 29,371,971 (2003 27,208,262)	**54,295,023**	44,712,589
Warrants *[note 3]*	**2,280,600**	1,598,250
Contributed surplus	**4,439,521**	3,699,425
Deficit	**(30,862,716)**	(24,994,592)
	30,152,428	25,015,672

	31,220,839	26,050,600

See accompanying notes

* Derived from the December 31, 2003 audited financial statements

Table of Contents

Oncolytics Biotech Inc.

STATEMENTS OF LOSS AND DEFICIT

	Six Month Period Ending June 30, 2004 $ (unaudited)	Six Month Period Ending June 30, 2003 $ (unaudited)	Three Month Period Ending June 30, 2004 $ (unaudited)	Three Month Period Ending June 30, 2003 $ (unaudited)	Cumulative from inception on April 2, 1998 to June 30, 2004 $ (unaudited)
Revenue					
Rights revenue					310,000
Interest income	**300,815**	84,526	**183,459**	41,356	2,386,798
	300,815	84,526	**183,459**	41,356	2,696,798
Expenses					
Research and development	**3,450,331**	1,328,356	**1,495,934**	848,721	19,868,861
Operating	**1,661,500**	1,236,313	**960,326**	714,759	8,865,527
Stock based compensation	**740,096**	68,789	**734,670**	68,318	1,769,521
Amortization	**363,856**	318,940	**184,833**	163,716	2,273,946
	6,215,783	2,952,398	**3,375,763**	1,795,514	32,777,855
Loss before the following:	**5,914,968**	2,867,872	**3,192,304**	1,754,158	30,081,057
(Gain) loss on sale of BCY LifeSciences Inc. ***[note 2]***	**(47,002)**		**646**		(311,455)
Loss on sale of Transition Therapeutics Inc.		2,156,685		2,156,685	2,156,685
Loss before taxes	**5,867,966**	5,024,557	**3,192,950**	3,910,843	31,926,287
Capital tax (recovery)	**158**	1,230	**(1,062)**	630	51,429
Future income tax recovery					(1,115,000)
Net loss for the period	**5,868,124**	5,025,787	**3,191,888**	3,911,473	30,862,716
Deficit, beginning of period	**24,994,592**	16,450,561	**27,670,828**	17,564,875	

Deficit, end of period	**30,862,716**	21,476,348	**30,862,716**	21,476,348	30,862,716
Basic and diluted loss per share	**0.21**	0.22	**0.11**	0.17	
Weighted average number of shares	**28,100,033**	22,396,218	**28,944,326**	22,569,011	

See accompanying notes

Table of Contents

Oncolytics Biotech Inc.

STATEMENTS OF CASH FLOWS

	Six Month Period Ending June 30, 2004 $ (unaudited)	Six Month Period Ending June 30, 2003 $ (unaudited)	Three Month Period Ending June 30, 2004 $ (unaudited)	Three Month Period Ending June 30, 2003 $ (unaudited)	Cumulative from inception on April 2, 1998 to June 30, 2004 $ (unaudited)
OPERATING ACTIVITIES					
Net loss for the period	**(5,868,124)**	(5,025,787)	**(3,191,888)**	(3,911,473)	(30,862,716)
Deduct non-cash items					
Amortization	**363,856**	318,940	**184,833**	163,716	2,273,946
Non-cash compensation	**740,096**	68,789	**734,670**	68,318	1,769,521
(Gain) loss on sale of BCY LifeSciences Inc.	**(47,002)**		**646**		(311,455)
Loss on sale of Transition Therapeutics Inc.		2,156,685		2,156,685	2,156,685
Future income tax recovery					(1,115,000)
Net changes in non-cash working capital	**(383,405)**	(669,452)	**(1,523,988)**	(412,316)	195,795
	(5,194,579)	(3,150,825)	**(3,795,727)**	(1,935,070)	(25,893,224)
INVESTING ACTIVITIES					
Intellectual property	**(425,928)**	(595,147)	**(295,388)**	(135,487)	(3,090,754)
Other capital assets	**(7,893)**	(41,431)	**(6,295)**	(40,809)	(518,865)
Purchase of short-term investments	**(6,352,478)**		**(6,107,212)**		(24,464,086)
Redemption of short-term investments	**2,000,000**		**1,000,000**		2,000,000
Investment in BCY LifeSciences Inc.	**133,609**		**1,959**		456,637
Investment in Transition Therapeutics Inc.		2,552,695		2,552,695	2,532,343
	(4,652,690)	1,916,117	**(5,406,936)**	2,376,399	(23,084,725)
FINANCING ACTIVITIES					
Alberta Heritage Foundation loan					150,000
	4,041,021	339,975	**3,096,276**	339,975	7,502,006

Proceeds from exercise of warrants and stock options					
Proceeds from private placements	**6,223,763**	6,061,585	**6,223,763**	5,817,414	22,741,983
Proceeds from public offerings					21,642,602
	10,264,784	6,401,560	**9,320,039**	6,157,389	52,036,591
Increase in cash and cash equivalents during the period	**417,515**	5,166,852	**117,376**	6,598,718	3,058,642
Cash and cash equivalents, beginning of the period	**2,641,127**	8,319,244	**2,941,266**	6,887,378	
Cash and cash equivalents, end of the period	**3,058,642**	13,486,096	**3,058,642**	13,486,096	3,058,642

See accompanying notes

Table of Contents

Oncolytics Biotech Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2004 and 2003 *(unaudited)*

1. ACCOUNTING POLICIES

These unaudited interim financial statements do not include all of the disclosures included in the Company s annual financial statements. Accordingly, these unaudited interim financial statements should be read in conjunction with the Company s most recent annual financial statements. The information for the year ended December 31, 2003 has been derived from the Company s audited financial statements for the year then ended.

The accounting policies used in the preparation of these unaudited interim financial statements conform with those used in the Company s most recent annual financial statements.

2. INVESTMENTS

During the six month period ending June 30, 2004, the Company sold 697,945 of its BCY shares for net cash proceeds of $133,609 recording a gain on sale of investment of $47,002. As at June 30, 2004, the Company s remaining ownership in BCY was 200,000 common shares with a book value of $24,818 and an estimated market value of $20,000 based on the trading price at June 30, 2004.

3. SHARE CAPITAL

Authorized:

Unlimited number of common shares

Issued:	**Shares**		**Warrants**	
	Number	**Amount $**	**Number**	**Amount $**
Balance, December 31, 2002	**22,145,284**	**30,191,572**	**550,000**	**114,286**
Issued for cash pursuant to February 10, 2003 private placement	140,000	265,540	77,000	16,000
Issued for cash pursuant to June 19, 2003 private placement	2,120,000	5,912,113	1,272,000	543,287
Issued for cash pursuant to August 21, 2003 private placement	1,363,900	3,801,778	813,533	349,176
Issued for cash pursuant to October 14, 2003 public offering	1,200,000	5,528,972	720,000	617,428
Exercise of options	64,700	149,615		

Exercise of warrants	174,378	593,194	(174,378)	(41,927)
Share issue costs		(1,730,195)		
Balance, December 31, 2003	**27,208,262**	**44,712,589**	**3,258,155**	**1,598,250**
Issued for cash pursuant to April 7, 2004 private placement (i)	1,077,100	5,924,050	646,260	1,028,631
Exercise of warrants	890,359	3,646,319	(890,359)	(346,281)
Exercise of options	196,250	740,983		
Share issue costs		(728,918)		
Balance, June 30, 2004	**29,371,971**	**54,295,023**	**3,014,056**	**2,280,600**

Table of Contents

Oncolytics Biotech Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2004 and 2003 *(unaudited)*

(i) Pursuant to a private placement, the Company sold 1,077,100 units at an average price of $6.25 per unit for gross cash proceeds of $6,731,875. The units were comprised of 1,077,100 common shares and 538,550 common share purchase warrants and have ascribed values of $5.50 and $1.50 respectively. Each common share purchase warrant entitles the holder to acquire one common share in the capital of the Company upon payment of $7.75 per share until October 7, 2005. Share issue costs related to the private placement were $728,918. In addition, the Company issued 107,710 common share purchase warrants to its advisor entitling the holder to acquire one common share of the capital of the Company upon payment of $7.00 per share until October 7, 2005. The ascribed value of these additional warrants was $220,806 ($2.05 per additional warrant) and has been included in the share issue costs above. The ascribed values of the warrants were based on the Black Scholes Option Pricing Model.

The following table summarizes the Company s outstanding warrants as at June 30, 2004:

Exercise Price	Outstanding, December 31, 2003	Granted During the Period	Exercised During the Period	Outstanding, End of Period	Weighted Average Remaining Contractual Life (years)
$3.00	480,755		463,255	17,500	0.11
$4.00	2,057,400		313,060	1,744,340	0.54
$5.00	120,000		43,794	76,206	0.79
$6.25	600,000		70,250	529,750	0.79
$7.00		107,710		107,710	1.25
$7.75		538,550		538,550	1.25
	3,258,155	646,260	890,359	3,014,056	0.74

Stock Option Plan

The Company has issued stock options to acquire common stock through its stock option plan of which the following are outstanding at:

	June 30, 2004		December 31, 2003	
	Stock Options	Weighted Average Share Price $	Stock Options	Weighted Average Share Price $

Outstanding at beginning of period	**2,800,800**	**3.81**	2,653,500	4.40
Granted during period	**243,500**	**8.12**	599,000	3.71
Cancelled during period			(387,000)	7.97
Exercised during period	**(196,250)**	**3.78**	(64,700)	2.31
Outstanding at end of period	**2,848,050**	**4.18**	2,800,800	3.81
Options exercisable at end of period	**2,768,633**	**4.21**	2,720,383	3.87

Table of Contents

Oncolytics Biotech Inc.

NOTES TO FINANCIAL STATEMENTS

June 30, 2004 and 2003 *(unaudited)*

As the Company is following the fair value based method of accounting for stock option awards, compensation expense related to options granted to employees and consultants was $717,276 and $22,820, respectively for the six month period ending June 30, 2004 (June 30, 2003 $5,271 and $63,518, respectively) with an offsetting credit to contributed surplus.

4. COMPARATIVE FIGURES

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

FOR FURTHER INFORMATION PLEASE CONTACT:

For Canada:
Oncolytics Biotech Inc.
Doug Ball
210, 1167 Kensington Cr NW
Calgary, Alberta T2N 1X7
Tel: 403.670.7377
Fax: 403.283.0858
www.oncolyticsbiotech.com

For Canada:
The Equicom Group
Joanna Longo
20 Toronto Street
Toronto, Ontario M5C 2B8
Tel: 416.815.0700 ext. 233
Fax: 416.815.0080
jlongo@equicomgroup.com

For United States:
The Investor Relations Group
Gino De Jesus or Dian Griesel, Ph.D.
11 Stone St. 3rd Floor
New York, NY 10004
Tel: 212.825.3210
Fax: 212.825.3229
mail@investorrelationsgroup.com

-30-