Second Quarter Report

June 30, 2011

Oncolytics Biotech Inc.
TSX: ONC
NASDAQ: ONCY

Oncolytics Message to Shareholders

In an effort to maximize the future commercial potential of REOLYSIN®, we continue to build upon and progress through our REOLYSIN research and development program. In the second quarter of 2011, we focused on the expansion of our Phase III clinical trial in head and neck cancer, broadened our clinical program through a new sponsored clinical trial in a new indication, and generated positive clinical trial results in two early studies. We also secured a leading manufacturer for the clinical and commercial supply of REOLYSIN, which is a significant step forward in our plans to expand our development program.

Positive Clinical Results in an Expanding Group of Indications

During the quarter we announced interim data from a U.K. translational clinical trial (REO 013a) investigating intravenous administration of REOLYSIN in patients with metastatic colorectal cancer prior to surgical resection of liver metastases. On initial histological analysis of the 10 treated patients to date, there was evidence of selective delivery of virus to tumour versus normal liver and viral replication in the majority (seven) of patients. In an additional two patients, only necrotic tumour was found; in one of these cases virus was detected in immune cells in the tumour. In six of 10 patients there was no evidence of virus in the normal liver surrounding the tumour, with virus found only rarely in liver cells in the other four patients. These data suggest reovirus can be intravenously administered as a monotherapy and successfully delivered specifically and selectively to colorectal liver metastases without affecting surrounding normal liver tissue. We expect to fully report the results of this study later in 2011.

Subsequent to quarter-end, we presented positive interim results for our Phase II non-small cell lung cancer clinical trial at the 14th World Conference on Lung Cancer. The trial investigated intravenous administration of REOLYSIN in combination with paclitaxel and carboplatin in patients with non-small cell lung cancer (NSCLC) with Kras or EGFR-activated tumours. The presentation, entitled “Phase II study of reovirus with paclitaxel (P) and carboplatin (C) in patients with metastatic non-small cell lung cancer (NSCLC) who have Kras or EGFR-activated tumors” indicated that 22 patients had received REOLYSIN in combination with carboplatin and paclitaxel To date the study has enrolled patients with Adenocarcinoma (15), Squamous Cell Carcinoma (three), Bronchioloalveolar Carcinoma (one), and not otherwise specified non-small cell lung cancer (three). Molecular tumor demographics included: nine Kras mutant, three EGFR mutant, 16 EGFR amplified. Response evaluation to date in 21 patients showed six partial responses (PR) (28.6%), 13 stable disease (SD) (61.9%), and two progressive disease (PD) (9.5%). This translates into a clinical benefit rate (complete response (CR)+PR+SD) of 90.5% and a response rate (CR+PR) of 28.6%. The investigators noted that the clinical benefit noted so far is encouraging and that a follow up randomized clinical trial appears warranted.

Broadening the Clinical Program

We continue to collaborate with a number of groups, specifically the U.S. National Cancer Institute (NCI), to cost effectively expand the scope of our clinical program. During the quarter we announced that the Cancer Therapy Evaluation Program, Division of Cancer Treatment and Diagnosis, NCI, which is part of the National Institutes of Health, has agreed to sponsor a Phase I study of REOLYSIN alone in patients with relapsed multiple myeloma. The NCI is sponsoring the trial under its Clinical Trials Agreement with Oncolytics, while Oncolytics will provide clinical supplies of REOLYSIN. The study will initially be a proof of concept, open-label Phase I study of REOLYSIN in patients with relapsed multiple myeloma. This is the sixth clinical trial using REOLYSIN to be sponsored by the NCI, but is the first trial testing REOLYSIN in the multiple myeloma indication.

Agreement for Commercial Supply of REOLYSIN

During the quarter, we announced that we entered into a commercial supply agreement with SAFC, a Division of Sigma-Aldrich Corporation, for the commercial manufacture of REOLYSIN. Under the terms of the agreement, SAFC will perform process validation of the product, will continue to supply clinical requirements and will supply commercial material upon approval of the product. This agreement represents a significant step forward towards the commercialization of REOLYSIN as we prepare to produce supplies for new and ongoing clinical trials and build inventory for potential commercial sales.

Looking to the Future

For the balance of the year one of our most important areas of focus remains completing enrollment in the first stage of our Phase 3 study in head and neck cancer and completing a number of our other studies. We want to thank all our stakeholders for their continued support in what promises to be an exciting time ahead.

Brad Thompson
President and CEO

July 27, 2011

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

BASIS OF PRESENTATION AND TRANSITION TO IFRS

On January 1, 2011, we adopted International Financial Reporting Standards ("IFRS") for Canadian publicly accountable enterprises. Prior to the adoption of IFRS, we followed Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). While IFRS has many similarities to Canadian GAAP, some of our accounting policies have changed as a result of our transition to IFRS. The most significant accounting policy changes that have had an impact on the results of our operations are discussed in more detail in the Accounting Changes section of this Management Discussion and Analysis of Financial Condition and Results of Operations ("MD&A").

This MD&A should be read in conjunction with our unaudited consolidated interim financial statements as at and for the period ending June 30, 2011 which have been prepared using IFRS and should also be read in conjunction with the audited consolidated financial statements, which were prepared using Canadian GAAP, and MD&A contained in our annual report for the year ended December 31, 2010.

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 and under applicable Canadian provincial securities legislation. Forward-looking statements, including our belief as to the potential of REOLYSIN®, a therapeutic reovirus, as a cancer therapeutic and our expectations as to the success of our research and development and manufacturing programs in 2011 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 our actual results to differ materially from those in the forward-looking statements.

Such risks and uncertainties include, among others, the need for and availability of funds and resources to pursue research and development projects, the efficacy of REOLYSIN® as a cancer treatment, the success and timely completion of clinical studies and trials, our ability to successfully commercialize REOLYSIN®, uncertainties related to the research, development and manufacturing of pharmaceuticals, uncertainties related to competition, changes in technology, the regulatory process and general changes to the economic environment.

With respect to the forward-looking statements made within this MD&A, we have made numerous assumptions regarding among other things: our ability to obtain financing to fund our development program, our ability to receive regulatory approval to commence enrollment in our clinical trial program, the final results of our co-therapy clinical trials, our ability to maintain our supply of REOLYSIN® and future expense levels being within our current expectations.

Investors should consult our 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. We do not undertake to update these forward-looking statements except as required by applicable law.

OVERVIEW

Oncolytics Biotech Inc. is a Development Stage Company

Since our inception in April of 1998, Oncolytics Biotech Inc. has been a development stage company and we have focused our research and development efforts on the development of REOLYSIN®, our potential cancer therapeutic. We have not been profitable since our inception and expect to continue to incur substantial losses as we continue research and development efforts. We do not expect to generate significant revenues until, if and when, our 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 we 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 pharmaceutical product, we rely upon our 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 Oncolytics.

REOLYSIN® Development Update for the Second Quarter of 2011

We continue to develop our lead product REOLYSIN® as a potential cancer therapy. Our goal each year is to advance REOLYSIN® through the various steps and stages of development required for pharmaceutical products. In order to achieve this goal, we actively manage the development of our clinical trial program, our pre-clinical and collaborative programs, our manufacturing process and supply, and our intellectual property.

Clinical Trial Program

We began the second quarter of 2011 with 12 clinical trials which includes three randomized studies (our randomized Phase III head and neck trial, our randomized Phase II ovarian cancer trial, and our randomized Phase II pancreatic cancer trial). Five of these 12 trials are funded by us and the remainder are sponsored by the U.S. National Cancer Institute ("NCI"), the Cancer Therapy & Research Center at The University of Texas Health Center in San Antonio ("CTRC"), and the University of Leeds ("Leeds").

During the second quarter of 2011, our clinical trial program expanded to include an additional NCI Phase I clinical study of REOLYSIN alone in patients with relapsed multiple myeloma. This is the sixth clinical trial sponsored by the NCI. We exited the second quarter of 2011 with 13 clinical trials which includes the three randomized studies. Five of the 13 trials are funded by us with the remainder sponsored by the NCI, CTRC, and Leeds. Our clinical trial program currently encompasses various cancer indications including head and neck, non-small cell lung, ovarian, pancreatic, colorectal, melanoma, and squamous cell carcinoma of the lung among others.

Clinical Trial – Randomized Phase III Head and Neck Pivotal Trial

Our randomized Phase III head and neck pivotal trial continues to enroll patients. During the second quarter of 2011, we continued to expand the number of jurisdictions and the number of sites within these jurisdictions. We have increased the jurisdictions to include the U.S., Canada, the U.K., Belgium, along with other European countries.

Clinical Trial – Program Expansion

NCI Sponsored Phase I Multiple Myeloma Clinical Trial

During the second quarter of 2011, our clinical program expanded to include a Phase I study of REOLYSIN alone in patients with relapsed multiple myeloma. This clinical trial is sponsored by the Cancer Therapy Evaluation Program, Division of Cancer Treatment and Diagnosis, U.S. National Cancer Institute, which is part of the National Institutes of Health. The Principal Investigator is Dr. Craig Hofmeister of The Ohio State University Comprehensive Cancer Center - Arthur G. James Cancer Hospital and Richard J. Solove Research Institute.

The study will initially be a proof of concept, open-label Phase I study of REOLYSIN in patients with relapsed multiple myeloma. Approximately 12 patients will receive REOLYSIN, in a dose escalation up to 3×10^{10} $TCID_{50}$ per day administered intravenously on days one through five every 28 days.

The primary endpoint for the dose escalation portion of this study will be adverse events using CTCAE criteria. Correlative studies will focus on the efficiency with which reovirus replicates in patient myeloma cells. Investigators will use standard cohorts-of-three phase I dose escalation design with three to six patients being treated at each dose level. Secondary endpoints will include clinical benefit, duration of response, and time to progression.

Clinical Trial – Results

U.K. Translational Colorectal Cancer Clinical Trial

During the second quarter of 2011, we released interim data from our U.K. translational clinical trial investigating intravenous administration of REOLYSIN in patients with metastatic colorectal cancer prior to surgical resection of liver metastases. The principal investigator of the study was Professor Alan Melcher of Leeds Institute of Molecular Medicine, University of Leeds, UK.

The trial was an open-label, non-randomized, single centre study of REOLYSIN given intravenously to patients for five consecutive days in advance of their scheduled operations to remove colorectal cancer deposits metastatic to the liver. Patients were treated with intravenous REOLYSIN at 1×10^{10} $TCID_{50}$, one to three weeks prior to the planned surgery. After surgery, the tumour and surrounding liver tissue were assessed for viral status and anti-tumour effects.

On initial histological analysis of the 10 treated patients to date, there was evidence of selective delivery of virus to tumour versus normal liver and viral replication in the majority (seven) of patients. In two patients, only necrotic tumour was found; in one of these cases virus was detected in immune cells in the tumour. In six of 10 patients there was no evidence of virus in the normal liver surrounding the tumour, with virus found only rarely in liver cells in the other four patients.

Manufacturing and Process Development

During the second quarter of 2011, we entered into a commercial supply agreement with SAFC, a Division of Sigma-Aldrich Corporation, for the commercial manufacture of REOLYSIN. Under the terms of the agreement, SAFC will perform process validation of the product, will continue to supply clinical

requirements and will supply commercial material upon approval of the product. As well, we completed a 100 litre cGMP production run along with associated fill and packaging activities. Our process development activity for the second quarter of 2011 continued to focus on process validation and formulation studies.

Intellectual Property

At the end of the second quarter of 2011, we had been issued over 250 patents including 43 U.S. and 11 Canadian patents as well as issuances in other jurisdictions. We also have approximately 200 patent applications filed in the U.S., Canada and other jurisdictions. We have an extensive patent portfolio covering the oncolytic reovirus that we use in our clinical trial program including a composition of matter patent that expires in 2028. Our patent portfolio also includes methods for treating proliferative disorders using modified adenovirus, HSV, parapoxvirus and vaccinia virus.

Financial Impact

We estimated at the beginning of 2011 that our cash requirements to fund our operations would be approximately $29,000,000. Our cash usage for the first half of 2011 was $8,767,423 from operating activities and $49,107 for the purchases of property and equipment. Our net loss for the six month period ending June 30, 2011 was $11,135,354.

Cash Resources

We exited the second quarter of 2011 with cash and short-term investments totaling $48,569,537 (see *"Liquidity and Capital Resources").*

Expected REOLYSIN® Development for the Remainder of 2011

Our planned development activity for REOLYSIN in 2011 is made up of clinical, manufacturing, intellectual property and collaboration programs. Our 2011 clinical program continues to include the anticipated completion of stage 1 (approximately 80 patients) of our Phase III head and neck clinical trial and commencement of stage 2. As well, we still expect to complete enrollment in our non-small cell lung cancer trial and support those clinical trials that are sponsored by CTRC, Leeds and the NCI.

Our 2011 manufacturing program still includes several 100-litre cGMP production runs along with the related fill, labeling, packaging and shipping of REOLYSIN to the various clinical sites. As well, we plan on performing smaller process development studies examining formulation, stability and additional scale up. Our intellectual property program includes filings for additional patents along with monitoring activities required to protect our patent portfolio. Finally, our 2011 collaboration program will finish the studies in place at the end of 2010 and contemplates the addition of future studies that may be required.

We still estimate that the cash requirements to fund our operations for 2011 will be approximately $29,000,000 (see *"Liquidity and Capital Resources"*).

ACCOUNTING CHANGES

Transition to IFRS

On January 1, 2011, we adopted IFRS for Canadian publicly accountable enterprises, as required by the Accounting Standards Board of Canada. Prior to the adoption of IFRS, we followed Canadian GAAP. The most significant change to our accounting policies relates to the treatment of our warrants with an exercise price denominated in U.S. dollars. The impact of this change has been fully disclosed in Note 3 of our unaudited interim consolidated financial statements. There was no change in how we account for our research and development or operating activities and there was no impact on our cash, cash equivalents or short-term investment balances.

Although we adopted IFRS on January 1, 2011, we were required to restate our comparative 2010 annual and interim financial positions and results of operations, effective from January, 1, 2010. The 2010 comparative amounts have not been audited by our external auditor. Note 4 of our unaudited interim consolidated financial statements as at and for the six months ended June 30, 2011 outlines our IFRS accounting policies and Note 3 provides a complete list of our IFRS 1 elections; detailed reconciliations between Canadian GAAP and IFRS of shareholders' equity as at January 1, June 30, and Dec. 31, 2010, respectively, and of net earnings and comprehensive income for the three and six month periods ending June 30, 2010 and the twelve months ending December 31, 2010; and information regarding the impacts of IFRS transition on our cash flows. A summary of the changes are outlined below in the following tables and respective notes:

Total equity	**December 31, 2010** **$**	**June 30, 2010** **$**	**January 1, 2010** **$**
Total equity under CGAAP	41,931,760	22,929,701	31,366,458
Adjustment required to conform to IFRS:			
Revaluation of warrant liability	(5,536,800)	(1,173,000)	(1,023,051)
Total equity under IFRS	36,394,960	21,756,701	30,343,407

Comprehensive loss for the period	**For the three month period ending June 30, 2010** **$**	**For the six month period ending June 30, 2010** **$**	**For the year ending December 31, 2010** **$**
Comprehensive loss under CGAAP	4,351,974	8,493,185	19,973,772
Adjustments required to conform to IFRS:			
Revaluation of warrant liability	(391,000)	150,489	4,841,949
Comprehensive loss under IFRS	3,960,974	8,643,674	24,815,721
Basic and diluted loss per common share, CGAAP	0.07	0.14	0.32
Basic and diluted loss per common share, IFRS	0.06	0.14	0.39
Weighted average number of common shares	61,556,343	61,553,173	62,475,403

Consolidated Statement of Cash Flows

In transitioning to IFRS, there was no impact on our net change in cash for the three and six month periods ending June 30, 2010 or for the year ending December 31, 2010.

IFRS Transitional Arrangements

When preparing our consolidated statement of financial position under IFRS at January 1, 2010, our date of transition, the following optional exemptions from full retrospective application of IFRS accounting policies have been adopted:

Cumulative translation differences – cumulative translation differences resulting from the translation of the financial statements of our U.S. subsidiary have been set to zero at January 1, 2010.

Effects of IFRS

Warrants
IFRS requires warrants with an exercise price denominated in a currency other than the entity's functional currency to be treated as a liability measured at fair value. Changes in fair value are to be recorded in the consolidated statement of loss and comprehensive loss.

Classification of expenses within the statement of loss and comprehensive loss
Under IFRS, we have chosen to present our expenses based on the function of each expense rather than the nature of each expense. As a result, stock based compensation, depreciation of capital assets, and foreign currency gains and losses are no longer separately presented on the statement of loss and comprehensive loss. There is no impact on our net loss or comprehensive loss as a result of these classifications.

Foreign currency translation
Under IFRS, we record the impact of fluctuations in foreign currency exchange rates relating to our net investment in our U.S. subsidiary and any foreign currency effects on the translation of our U.S. subsidiaries financial statements as a separate component of equity and other comprehensive income. Under CGAAP we treated our U.S. subsidiary as an integrated subsidiary with foreign currency translation differences recorded as part of our statement of loss. The result of the transition to IFRS is a reclassification of the related foreign currency gains and losses from net loss to other comprehensive income. There is no impact on our net comprehensive loss as a result of these re-classifications.

SECOND QUARTER RESULTS OF OPERATIONS

(for the three months ended June 30, 2011 and 2010)

Net loss for the three month period ending June 30, 2011 was $7,164,238 compared to $3,984,852 for the three month period ending June 30, 2010.

Research and Development Expenses ("R&D")

	2011 **$**	**2010** **$**
Clinical trial expenses	**1,748,854**	1,034,847
Manufacturing and related process development expenses	**2,013,146**	1,775,862
Intellectual property expenditures	**279,568**	107,332
Research collaborations	**79,928**	17,093
Other R&D expenses	**1,266,373**	626,034
Foreign exchange (gain) loss	**54,793**	(325,351)
Stock based compensation	**40,469**	1,399
Research and development expenses	**5,483,131**	3,237,216

Clinical Trial Program

	2011 **$**	**2010** **$**
Direct clinical trial expenses	**585,212**	585,633
Phase III start up expenses	**1,163,642**	449,214
Clinical trial expenses	**1,748,854**	1,034,847

During the second quarter of 2011, our clinical trial expenses increased to $1,748,854 compared to $1,034,847 for the second quarter of 2010. In the second quarters of 2011 and 2010, we incurred direct patient expenses related to the clinical trials that we are currently sponsoring. We also continue to incur start up costs relating to our randomized Phase III head and neck cancer trial as we increase the number of jurisdictions and clinical sites initiated to enroll patients.

Manufacturing & Related Process Development ("M&P")

	2011 $	2010 $
Product manufacturing expenses	**1,879,306**	1,425,477
Process development expenses	**133,840**	350,385
Manufacturing and related process development expenses	**2,013,146**	1,775,862

In the second quarter of 2011, our product manufacturing expenses were $1,879,306 compared to $1,425,477 for the second quarter of 2010. During the second quarter of 2011, our production activity included the commencement and completion of the bulk harvest of one 100-litre cGMP production run along with related fill, finish and packaging costs. During the second quarter of 2010, our production activity included the completion of a 100-litre cGMP production run that had been initiated in the first quarter of 2010.

Our process development expenses for the second quarter of 2011 were $133,840 compared to $350,385 for the second quarter of 2010. Our process development activity for the second quarter of 2011 focused on optimization and validation studies anticipated to be required in support of product registration.

Intellectual Property Expenses

	2011 $	2010 $
Intellectual property expenses	**279,568**	107,332

Our intellectual property expenses for the second quarter of 2011 were $279,568 compared to $107,332 for the second quarter of 2010. The change in intellectual property expenditures reflects the timing of filing costs associated with our expanded patent base. At the end of the second quarter of 2011, we had been issued over 250 patents including 43 U.S. and 11 Canadian patents, as well as issuances in other jurisdictions. We also have over 200 patent applications filed in the U.S., Canada and other jurisdictions.

Research Collaborations

	2011 $	2010 $
Research collaborations	**79,928**	17,093

During the second quarter of 2011, our research collaboration expenses were $79,928 compared to $17,093. Our research collaboration activity continues to focus on the interaction of the immune system and the reovirus and the use of the reovirus as a co-therapy with existing chemotherapeutics and radiation.

Other Research and Development Expenses

	2011 $	2010 $
R&D consulting fees	**26,525**	9,427
R&D salaries and benefits	**1,044,596**	500,731
Other R&D expenses	**195,252**	115,876
Other research and development expenses	**1,266,373**	626,034

During the second quarter of 2011, our Other Research and Development expenses were $1,266,373 compared to $626,034 for the second quarter of 2010. In the second quarter of 2011, our salaries and benefits costs increased compared to the second quarter of 2010 as we increased the number of employees and consultants in order to support our randomized Phase III head and neck clinical trial along with our

other clinical trials. As well, in the second quarter of 2011, we incurred severance costs associated with the change in our Chief Medical Officer that did not occur in the second quarter of 2010.

Foreign Exchange (Gain) Loss

	2011 $	2010 $
Foreign exchange (gain) loss	**54,793**	(325,351)

During the second quarter of 2011, our foreign exchange loss was $54,793 compared to a foreign exchange gain of $325,351 for the second quarter of 2010. The foreign exchange loss/(gain) is primarily a result of the fluctuations in the U.S. dollar exchange rate used on the translation of our U.S. currency that was received from our U.S. denominated financing in 2009 and the exercise of U.S. denominated warrants in 2011.

Operating Expenses

	2011 $	2010 $
Public company related expenses	**723,138**	820,582
Office expenses	**315,493**	312,737
Amortization of property and equipment	**29,992**	14,621
Operating expenses	**1,068,623**	1,147,940

During the second quarter of 2011, our public company related expenses were $723,138 compared to $820,585 for the second quarter of 2010. In the second quarter of 2011 our public company related expenses declined compared to the second quarter of 2010 as we incurred professional fees associated with the renewal of our base shelf prospectus in 2010 that were not incurred in 2011.

Our office expense activity during the second quarter of 2011 remained consistent compared to the second quarter of 2010.

Write Down of Asset Available for Sale

	2011 $	2010 $
Write down of asset available for sale	**735,681**	—

During the second quarter of 2011, we continued the sales process relating to our investment in British Canadian Biosciences Corp. (“BCBC”). At the end of the second quarter, we were unable to complete a sale under current market conditions. As a result, we elected to write down our investment in BCBC to $nil recognizing a write down of $735,681. We continue to pursue potential future buyers.

YEAR TO DATE RESULTS OF OPERATIONS

(for the six months ended June 30, 2011 and 2010)

Net loss for the six month period ending June 30, 2011 was $11,135,354 compared to $8,522,645 for the six month period ending June 30, 2010.

Research and Development Expenses ("R&D")

	2011 $	2010 $
Clinical trial expenses	**2,789,361**	1,911,782
Manufacturing and related process development expenses	**2,621,890**	3,011,489
Intellectual property expenditures	**493,371**	324,168
Research collaboration expenses	**151,454**	16,114
Other R&D expenses	**2,124,906**	1,136,928
Foreign exchange loss	**230,418**	(123,879)
Stock based compensation	**43,342**	2,428
Research and development expenses	**8,454,742**	6,279,030

Clinical Trial Program

	2011 $	2010 $
Direct clinical trial expenses	**1,283,039**	1,249,040
Phase III start up expenses	**1,506,322**	662,742
Clinical trial expenses	**2,789,361**	1,911,782

During the first half of 2011, our clinical trial expenses increased to $2,789,361 compared to $1,911,782 for the first half of 2010. In the first half of 2011, we continue to expand the number of jurisdictions and clinical sites that are approved to enroll patients in our randomized Phase III head and neck cancer clinical trial. Phase III start up expenses include regulatory filing fees, site investigation and initiation costs and product shipment expenses which are required to commence enrollment in each jurisdiction and related clinical sites. Throughout the first half of 2011, we have increased the jurisdictions to include the U.S., Canada, the U.K., and Belgium, along with other European countries.

We expect our clinical trial expenses to increase in 2011 compared to 2010. We expect to complete enrollment in stage 1 of our Phase III pivotal trial and enter into stage 2. We also still expect to complete enrollment in our Phase II NSCLC study. Finally, we will continue to support our clinical research collaboration with CTRC, our Clinical Agreement with the NCI and our clinical trial with Leeds.

Manufacturing & Related Process Development ("M&P")

	2011 $	2010 $
Product manufacturing expenses	**2,035,405**	2,556,342
Process development expenses	**586,485**	455,147
Manufacturing and related process development expenses	**2,621,890**	3,011,489

Our M&P expenses for the six month period ending June 30, 2011 were $2,621,890 compared to $3,011,489 for the six month period ending June 30, 2010.

During the six month period ending June 30, 2011, we completed the bulk production and related vial, fill and packaging activities for one 100-litre cGMP production run. During the six month period ending June

30, 2010, we completed the bulk harvest for two 100-litre cGMP production runs along with the related vial, fill and packaging activities for only one of these runs.

Our process development expenses for the six month period ending June 30, 2011 were $586,485 compared to $455,147 for the six month period ending June 30, 2010. During the six month periods ending June 30, 2011 and 2010, our process development activity focused on optimization and validation studies. These studies are anticipated to be required to support product registration.

We still expect our M&P expenses for 2011 to increase compared to 2010. We expect to complete additional 100-litre cGMP production runs including fill and finish activities in 2011. We also expect to continue to perform a number of small scale process development studies focusing on formulation, process validation, and stability.

Intellectual Property Expenses

	2011	**2010**
	$	**$**
Intellectual property expenses	**493,371**	324,168

Our intellectual property expenses for the first half of 2011 were $493,371 compared to $324,168 for the first half of 2010. The change in intellectual property expenditures reflects the timing of filing costs associated with our expanded patent base. At the end of the second quarter of 2011, we had been issued over 250 patents including 43 U.S. and 11 Canadian patents, as well as issuances in other jurisdictions. We also have over 200 patent applications filed in the U.S., Canada and other jurisdictions.

Research Collaborations

	2011	**2010**
	$	**$**
Research collaborations	**151,454**	16,114

During the six month period ending June 30, 2011, our research collaboration expenses were $151,454 compared to $16,114 for the six month period ending June 30, 2010. Our research collaboration activity continues to focus on the interaction of the immune system and the reovirus and the use of the reovirus as a co-therapy with existing chemotherapeutics and radiation. During the first half of 2010, we did not incur any new research collaboration costs.

We still expect that pre-clinical trial expenses and research collaborations in 2011 will remain consistent with 2010. We expect to complete our ongoing collaborative program carried over from 2010 and will continue to be selective in the types of new collaborations we enter into in 2011.

Other Research and Development Expenses

	2011	**2010**
	$	**$**
R&D consulting fees	**163,437**	45,278
R&D salaries and benefits	**1,735,695**	964,321
Other R&D expenses	**225,774**	127,329
Other research and development expenses	**2,124,906**	1,136,928

During the first half of 2011, our Other Research and Development expenses were $2,124,906 compared to $1,136,928 for the first half of 2010. In the six month period ending June 30, 2011, we have increased our number of employees and consultants as we have expanded our randomized Phase III head and neck clinical trial into other jurisdictions and increased the number of enrolling clinical sites. This increase

allows us to support this trial along with our expanding clinical trial program. As well, we incurred severance costs associated with the change in our Chief Medical Officer that did not occur in 2010.

We now expect that our Other R&D expenses in 2011 will increase compared to 2010 reflecting the increase in employees and consultants.

Foreign Exchange (Gain) Loss

	2011 **$**	**2010** **$**
Foreign exchange (gain) loss	**230,418**	(123,879)

For the six month period ending June 30, 2011, our foreign exchange loss was $230,418 compared to a foreign exchange gain of $123,879 for the six month period ending June 30, 2010. The foreign exchange loss/(gain) is primarily a result of the fluctuations in the U.S. dollar exchange rate used on the translation of our U.S. currency that was received from our U.S. denominated financing in 2009 and the exercise of U.S. denominated warrants in 2011. In the first half of 2011, the Canadian dollar has strengthened over this period resulting in a foreign exchange loss. During the first half of 2010, the Canadian dollar weakened during the second quarter of 2010 resulting in a foreign exchange gain.

Operating Expenses

	2011 **$**	**2010** **$**
Public company related expenses	**1,538,986**	1,462,763
Office expenses	**609,381**	619,980
Amortization of property and equipment	**47,267**	29,506
Operating expenses	**2,195,634**	2,112,249

During the six month period ending June 30, 2011, our operating expenses were $2,195,634 compared to $2,112,249 for the six month period ending June 30, 2010. In the first half of 2011, our operating costs remained relatively consistent compared to the first half of 2010 except for investor and public relation costs which have increased in 2011.

Asset Available for Sale

	2011 **$**	**2010** **$**
Write down of asset available for sale	**735,681**	—

At the beginning of 2011, we began the process to sell our investment in BCBC. At the end of the second quarter, despite our efforts to sell this investment, we have been unsuccessful in completing a sale under current market conditions. As a result, we have written down our investment in BCBC to $nil recognizing a write down of $735,681. We plan to continue to pursue potential future buyers.

Commitments

As at June 30, 2011, we are committed to payments totaling $2,453,000 for activities related to manufacturing, clinical trial activity and collaborations. All of these committed payments are considered to be part of our normal course of business.

SUMMARY OF QUARTERLY RESULTS

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

	2011		2010					2009[6]	
(unaudited)	**June**	**March**	**Dec.**	**Sept.**	**June**	**March**		**Dec.**	**Sept.**
Revenue	—	—	—	—	—	—		—	—
Net loss [1], [3]	7,164	3,971	9,613	6,524	3,984	4,538		5,245	2,694
Basic and diluted loss per common share[1], [3]	$0.10	$0.06	$0.15	$0.11	$0.06	$0.07		$0.09	$0.05
Total assets[4]	49,690	54,945	44,432	21,137	26,569	30,159		35,593	10,240
Total cash[2], [4]	48,570	53,521	42,906	19,708	24,885	28,823		34,129	9,655
Total long-term debt	—	—	—	—	—	—		—	—
Cash dividends declared[5]	Nil	Nil	Nil	Nil	Nil	Nil		Nil	Nil

(1) Included in net loss and net loss per share between June 2011 and July 2009 are warrant revaluation charges of $nil, ($36,000), $2,169,510, $2,522,490, ($391,540), $541,489, $nil, and $nil, respectively.
(2) Included in total cash are cash and cash equivalents plus short-term investments.
(3) Included in net loss and loss per common share between June 2011 and July 2009 are quarterly stock based compensation expenses of $40,469, $2,873, $2,850,938, $397,675, $1,399, $1,029, $396,110, $7,982, and $8,544, respectively.
(4) We issued 3,256,016 common shares for net cash proceeds of $14,738,597 in 2011 (2010 – 6,408,333 common shares for net cash proceeds of $27,288,132; 2009 – 17,524,211 common shares for net cash proceeds of $37,052,900).
(5) We have not declared or paid any dividends since incorporation.
(6) Represents Canadian GAAP figures.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

	June 30, 2011 $	**December 31, 2010** $
Cash and cash equivalents	**46,640,231**	39,296,682
Short-term investments	**1,929,306**	3,609,246
Working capital	**45,275,263**	35,432,368

The increase in our cash and cash equivalent and short term investment positions reflects the cash usage from our operating activities of $8,767,423 along with the cash provided by financing activities of $14,738,597 for the six month ending June 30, 2011.

We desire to maintain adequate cash and short-term investment reserves to support our planned activities which include our clinical trial program, product manufacturing, administrative costs, and our intellectual property expansion and protection. To date, we have mainly funded our operations through the issue of additional capital via public and private offerings.

As a result of the exercise of existing warrants we raised over $14.7 million to be used to support our clinical trial, manufacturing, intellectual property and collaboration programs in the first half of 2011. We still anticipate that the expected cash requirements to fund our operations in 2011 will be $29 million.

We continue to manage our research and development plan with the objective of ensuring optimal use of our existing resources. Additional activities continue to be subject to adequate resources and we believe we will have sufficient cash resources to fund our presently planned operations into 2012. Factors that will affect our anticipated cash usage for the remainder of 2011 and into 2012, and for which additional funding might be required include, but are not limited to, expansion in our clinical trial program, the timing of patient enrollment in our approved clinical trials, the actual costs incurred to support each clinical trial, the number of treatments each patient will receive, the timing of R&D activity with our clinical trial research collaborations, the number, timing and costs of manufacturing runs required to conclude the validation process and supply product to our clinical trial program, and the level of collaborative activity undertaken.

During the first half of 2011, we have been able to raise funds primarily through the exercise of previously issued warrants. During 2010, we were able to raise funds through a bought deal public offering along with the exercise of existing warrants and options. We have no assurances that we will be able to raise funds through the sale of our common shares, consequently, we will continue to evaluate all types of financing arrangements.

We also want to be in a position to evaluate potential financings and be able to accept appropriate financings when available. As a result, we renewed our base shelf prospectus in 2010 which qualified for distribution up to $150,000,000 of common shares, subscription receipts, warrants, and/or units. Establishing our base shelf provides us with additional flexibility when seeking capital as, under certain circumstances, it shortens the time period to close a financing and is expected to increase the number of potential investors that may be prepared to invest in our company. We have been able to take advantage of our base shelf with the bought deal financing in 2010 along with the exercise of previously issued warrants raising approximately $41.7 million. Our current base shelf expires in July 2012 and our present intention would be to renew it prior to its expiry.

Investing Activities

Under our Investment Policy, we are permitted to invest in short-term instruments with a rating no less than R-1 (DBRS) with terms less than two years. As at June 30, 2011, we have $1,929,306 (December 31, 2010 - $3,609,246) invested under this policy and we are currently earning interest at an effective rate of 0.85% (December 31, 2010 – 0.30%)

OTHER MD&A REQUIREMENTS

We have 71,214,318 common shares outstanding at July 27, 2011. If all of our warrants (2,170,110) and options (4,711,094) were exercised we would have 78,095,522 common shares outstanding.

Additional information relating to Oncolytics Biotech Inc. is available on SEDAR at www.sedar.com.

Controls and Procedures

There were no changes in our internal controls over financial reporting during the six month period ending June 30, 2011 that materially affected or are reasonably likely to materially affect, internal controls over financial reporting.

Interim Condensed Consolidated Financial Statements

Oncolytics Biotech® Inc.
(unaudited)

June 30, 2011

ONCOLYTICS BIOTECH INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(unaudited)

As at,	Notes	June 30, 2011 $	December 31, 2010 $ *(note 3)*	January 1, 2010 $ *(note 3)*
Assets				
Current assets				
Cash and cash equivalents	6	**46,640,231**	39,296,682	32,448,939
Short-term investments	6	**1,929,306**	3,609,246	1,679,937
Accounts receivable		**51,421**	284,988	64,787
Prepaid expenses		**840,444**	278,934	507,408
Total current assets		**49,461,402**	43,469,850	34,701,071
Non-current assets				
Property and equipment		**228,751**	226,911	208,320
Long term investment	**7**	**—**	—	684,000
Total non-current assets		**228,751**	226,911	892,320
Asset held for sale	7	**—**	735,681	—
Total assets		**49,690,153**	44,432,442	35,593,391
Liabilities And Shareholders' Equity				
Current Liabilities				
Accounts payable and accrued liabilities		**4,186,139**	2,500,682	4,226,933
Warrant liability	8	**–**	5,536,800	1,023,051
Total current liabilities		**4,186,139**	8,037,482	5,249,984
Commitments and contingencies	*11, 12, 18 and 19*			
Shareholders' equity				
Share capital Authorized: unlimited Issued: June 30, 2011 – 71,214,318 December 31, 2010 – 67,958,302 January 1, 2010 – 61,549,969	8	**177,179,742**	155,439,610	131,908,274
Warrants	8	**2,653,627**	4,108,652	2,437,460
Contributed surplus	9	**19,397,121**	19,399,489	13,734,743
Accumulated other comprehensive loss		**(194,991)**	(156,660)	**–**
Deficit		**(153,531,485)**	(142,396,131)	(117,737,070)
Total shareholders' equity		**45,504,014**	36,394,960	30,343,407
Total Liabilities And Equity		**49,690,153**	44,432,442	35,593,391

See accompanying notes

ONCOLYTICS BIOTECH INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(unaudited)

	Notes	Three Month Period Ending June 30, 2011 $	Three Month Period Ending June 30, 2010 $ *(note 3)*	Six Month Period Ending, June 30, 2011 $	Six Month Period Ending, June 30,2010 $ *(note 3)*
Expenses					
Research and development	16	**5,483,131**	3,237,216	**8,454,742**	6,279,030
Operating	16	**1,068,623**	1,147,940	**2,195,634**	2,112,249
		6,551,754	4,385,156	**10,650,376**	8,391,279
Loss before the following		**(6,551,754)**	(4,385,156)	**(10,650,376)**	(8,391,279)
Write down of asset available for sale	7	**(735,681)**	**—**	**(735,681)**	**—**
Change in fair value of warrant liability	8	**—**	391,000	**36,000**	(150,489)
Interest		**123,197**	9,304	**214,703**	19,123
Loss before income taxes		**(7,164,238)**	(3,984,852)	**(11,135,354)**	(8,522,645)
Income taxes		**—**	**—**	**—**	**—**
Net loss		**(7,164,238)**	(3,984,852)	**(11,135,354)**	(8,522,645)
Other comprehensive loss – translation adjustment		**(75,211)**	23,878	**(38,331)**	(121,029)
Net comprehensive loss		**(7,239,449)**	(3,960,974)	**(11,173,685)**	(8,643,674)
Basic and diluted loss per share	10	**(0.10)**	(0.06)	**(0.16)**	(0.14)
Weighted average number of shares (basic and diluted)		**71,209,164**	61,556,343	**70,586,073**	61,553,173

See accompanying notes

ONCOLYTICS BIOTECH INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited)

	For the six month period ending, June 30, 2011					
	Share capital	**Contributed Surplus**	**Warrants**	**Accumulated Other Comprehensive Income**	**Deficit**	**Total Equity**
	$	$	$	$	$	$
As at December 31, 2010	155,439,610	19,399,489	4,108,652	(156,660)	(142,396,131)	36,394,960
Net loss and comprehensive loss for the period	—	—	—	(38,331)	(11,135,354)	(11,173,685)
Exercise of warrants	21,487,080	—	(1,455,025)	—	—	20,032,055
Exercise of stock options	253,052	(45,710)	—	—	—	207,342
Stock based compensation	—	43,342	—	—	—	43,342
As at June 30, 2011	**177,179,742**	**19,397,121**	**2,653,627**	**(194,991)**	**(153,531,485)**	**45,504,014**

	For the six month period ending, June 30, 2010 *(note 3)*					
	Share capital	**Contributed Surplus**	**Warrants**	**Accumulated Other Comprehensive Income**	**Deficit**	**Total Equity**
	$	$	$	$	$	$
As at January 1, 2010	131,908,274	13,734,743	2,437,460	—	(117,737,070)	30,343,407
Net loss and comprehensive loss for the period	—	—	—	(121,029)	(8,522,645)	(8,643,674)
Expired warrants	—	2,438,000	(2,438,000)	—	—	—
Exercise of stock options	72,000	(18,000)	—	—	—	54,000
Stock based compensation	—	2,428	—	—	—	2,428
Other	—	—	540	—	—	540
As at June 30, 2010	131,980,274	16,157,171	—	(121,029)	(126,259,715)	21,756,701

See accompanying notes

ONCOLYTICS BIOTECH INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Notes	Three Month Period Ending June 30, 2011 $	Three Month Period Ending June 30, 2010 $	Six Month Period Ending, June 30, 2011 $	Six Month Period Ending, June 30, 2010 $
Cash Flows					
Operating Activities					
Net loss for the period		**(7,164,238)**	(3,984,852)	**(11,135,354)**	(8,522,645)
Amortization - property and equipment		**29,992**	14,621	**47,267**	29,506
Stock based compensation	16	**40,469**	1,399	**43,342**	2,428
Change in fair value of warrant liability	8	**—**	(391,000)	**(36,000)**	150,489
Write down of asset available for sale	7	**735,681**	**—**	**735,681**	**—**
Unrealized foreign exchange loss (gain)	16	**28,978**	(293,534)	**220,127**	(74,546)
Net change in non-cash working capital	15	**1,417,496**	384,452	**1,357,514**	(792,229)
Cash used in operating activities		**(4,911,622)**	(4,268,914)	**(8,767,423)**	(9,206,997)
Investing Activities					
Redemption of short-term investments		**1,679,940**	**—**	**1,679,940**	**—**
Acquisition of property and equipment		**(33,831)**	(39,851)	**(49,107)**	(43,498)
Cash provided by (used in) investing activities		**1,646,109**	(39,851)	**1,630,833**	(43,498)
Financing Activities					
Proceeds from exercise of stock options and warrants		**23,300**	54,000	**14,738,597**	54,000
Cash provided by financing activities		**23,300**	54,000	**14,738,597**	54,000
Increase (decrease) in cash		**(3,242,213)**	(4,254,765)	**7,602,007**	(9,196,495)
Cash and cash equivalents, beginning of period		**49,912,873**	27,143,314	**39,296,682**	32,448,939
Impact of foreign exchange on cash and cash equivalents		**(30,429)**	410,378	**(258,458)**	46,483
Cash and cash equivalents, end of period		**46,640,231**	23,298,927	**46,640,231**	23,298,927

See accompanying notes

ONCOLYTICS BIOTECH INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

Note 1: Incorporation and Nature of Operations

Oncolytics Biotech Inc. was incorporated on April 2, 1998 under the Business Corporations Act (Alberta) as 779738 Alberta Ltd. On April 8, 1998, we changed our name to Oncolytics Biotech Inc.

Our interim consolidated financial statements for the period ended June 30, 2011, were authorized for issue in accordance with a resolution of the directors on July 27, 2011. We are a limited company incorporated and domiciled in Canada. Our shares are publicly traded and our registered office is located at 210, 1167 Kensington Crescent NW, Calgary, Alberta, Canada.

We are a development stage biopharmaceutical company that focuses on the discovery and development of pharmaceutical products for the treatment of cancers that have not been successfully treated with conventional therapeutics. Our product being developed may represent a novel treatment for Ras mediated cancers which can be used as an alternative to existing cytotoxic or cytostatic therapies, as an adjuvant therapy to conventional chemotherapy, radiation therapy, or surgical resections, or to treat certain cellular proliferative disorders for which no current therapy exists.

Note 2: Basis of Financial Statement Presentation

Our consolidated financial statements include our financial statements and the financial statements of our subsidiaries and are presented in Canadian dollars, our functional currency.

The accounts are prepared on the historical cost basis, except for certain assets and liabilities which are measured at fair value as explained in the notes to these financial statements.

These consolidated financial statements have been prepared in compliance with International Accounting Standard 34 *Interim Financial Reporting* and IFRS 1 *First-time Adoption of International Financial Reporting Standards.* The notes presented in these interim consolidated financial statements include only significant events and transactions occurring since our last fiscal year end and are not fully inclusive of all matters required to be disclosed in our annual audited consolidated financial statements. Accordingly, these interim consolidated financial statements should be read in conjunction with our most recent annual audited consolidated financial statements.

Basis of consolidation

Our accounts include the accounts of Oncolytics Biotech Inc. and our subsidiaries. Subsidiaries are entities over which we have control, being the power to govern the financial and operating policies of the investee entity so as to obtain benefits from its activities. Accounting policies of subsidiaries are consistent with our accounting policies and all intra-group transactions, balances, income and expenses are eliminated on consolidation.

A change in ownership interest of a subsidiary, without a change in control, is accounted for as an equity transaction.

Note 3: Adoption of IFRS

Our accounting policies outlined in Note 4 have been applied in preparing our consolidated financial statements as at and for the period ended June 30, 2011, the comparative information presented as at and for the period ended June 30, 2010 and in the preparation of our opening IFRS balance sheet at January 1, 2010 (our date of transition).

In preparing our opening balance sheet, we have adjusted amounts reported previously in our consolidated financial statements prepared in accordance with Canadian Generally Accepted Accounting Principles ("CGAAP"). An explanation of how the transition from CGAAP to IFRS has affected our financial position, financial performance and cash flows is set out in the tables below and in the respective notes.

Total equity	December 31, 2010 $	June 30, 2010 $	January 1, 2010 $
Total equity under CGAAP	41,931,760	22,929,701	31,366,458
Adjustment required to conform to IFRS:			
Revaluation of warrant liability	(5,536,800)	(1,173,000)	(1,023,051)
Total equity under IFRS	36,394,960	21,756,701	30,343,407

Comprehensive loss for the period	For the three month period ending June 30, 2010 $	For the six month period ending June 30, 2010 $	For the year ending December 31, 2010 $
Comprehensive loss under CGAAP	4,351,974	8,493,185	19,973,772
Adjustments required to conform to IFRS:			
Revaluation of warrant liability	(391,000)	150,489	4,841,949
Comprehensive loss under IFRS	3,960,974	8,643,674	24,815,721
Basic and diluted loss per common share, CGAAP	0.07	0.14	0.32
Basic and diluted loss per common share, IFRS	0.06	0.14	0.39
Weighted average number of common shares	61,556,343	61,553,173	62,475,403

Consolidated Statement of Cash Flows

In transitioning to IFRS, there was no impact on our net change in cash for the three and six month period ending June 30, 2010 or for the year ending December 31, 2010.

IFRS Transitional Arrangements

When preparing our consolidated statement of financial position under IFRS at January 1, 2010, our date of transition, the following optional exemptions from full retrospective application of IFRS accounting policies have been adopted:

Cumulative translation differences – cumulative translation differences resulting from the translation of our net investment in our U.S. subsidiary and the financial statements of our U.S. subsidiary have been set to zero at January 1, 2010.

Effects of IFRS

Warrants
IFRS requires warrants with an exercise price denominated in a currency other than the entity's functional currency to be treated as a liability measured at fair value. Changes in fair value are to be recorded in the consolidated statement of loss and comprehensive loss.

Classification of expenses within the statement of loss and comprehensive loss
Under IFRS, we have chosen to present our expenses based on the function of each expense rather than the nature of each expense. As a result, stock based compensation, depreciation of capital assets, and foreign currency gains and losses are no longer separately presented on the statement of loss and comprehensive loss. There is no impact on our net loss or comprehensive loss as a result of these classifications.

Foreign currency translation
Under IFRS, we record the impact of fluctuations in foreign currency exchange rates relating to our net investment in our U.S. subsidiary and any foreign currency effects on the translation of our U.S. subsidiaries financial statements as a separate component of equity and other comprehensive income. Under CGAAP we treated our U.S. subsidiary as an integrated subsidiary with foreign currency translation differences recorded as part of our statement of loss. The result of the transition to IFRS is a reclassification of the related foreign currency gains and losses from net loss to other comprehensive income. There is no impact on our net comprehensive loss as a result of these re-classifications.

Note 4: Summary of Significant Accounting Policies

The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

Property and equipment

Property and equipment are recorded at cost. Depreciation is provided on bases and at rates designed to amortize the cost of the assets over their estimated useful lives. Depreciation is recorded using the declining balance method at the following annual rates:

Office equipment and furniture	20%
Medical equipment	20%
Computer equipment	30%
Leasehold improvements	Straight-line over the term of the lease

Intellectual property

Intellectual property acquired through our investment in BCBC is included in Asset Held for Sale on the December 31, 2010 balance sheet, at cost. In the three month period ended June 30, 2011 this cost was written off.

Foreign currency translation

The financial statements for each of our subsidiaries are prepared using their functional currency. The functional currency is the currency of the primary economic environment in which an entity operates. Our presentation currency is the Canadian dollar which is also Oncolytics Biotech Inc.'s functional currency. Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions. Exchange differences resulting from the settlement of such transactions and from the translation at

exchange rates ruling at the statement of financial position date of monetary assets and liabilities denominated in currencies other than the functional currency are recognized directly in the consolidated statement of loss.

Exceptions to this are where the monetary items form part of the net investment in a foreign operation. These exchange differences are initially recognized in equity. The statement of financial position of foreign operations is translated into Canadian dollars using the exchange rate at the statement of financial position date and the income statements are translated into Canadian dollars using the average exchange rate for the period. Where this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, the exchange rate on the transaction date is used. Exchange differences on translation into Canadian dollars are recognized as a separate component of equity. On disposal of a foreign operation, any cumulative exchange differences held in equity are transferred to the consolidated statement of loss.

Research and development costs

Research costs are expensed as incurred. Development costs that meet specific criteria related to technical, market and financial feasibility will be capitalized. To date, all development costs have been expensed.

Investment tax credits

Investment tax credits relating to qualifying scientific research and experimental development expenditures that are recoverable in the current period are accounted for as a reduction in research and development expenditures. Investment tax credits not recoverable in the current period are accrued provided there is reasonable assurance that the credits will be realized.

Loss per common share

Basic loss per common share is determined using the weighted average number of common shares outstanding during the period.

We use the treasury stock method to calculate diluted loss per common share. Under this method, diluted loss per common share is computed in a manner consistent with basic loss per common share except that the weighted average common shares outstanding are increased to include additional common shares from the assumed exercise of options and warrants, if dilutive. The number of additional common shares is calculated by assuming that any outstanding “in the money” options and warrants were exercised at the later of the beginning of the period or the date of issue and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the reporting period.

Stock based compensation

Stock option plan
We have one stock option plan (the “Plan”) available to officers, directors, employees, consultants and suppliers with grants under the Plan approved from time to time by our Board of Directors (the “Board”). Under the Plan, the exercise price of each option equals the trading price of our stock on the date of grant in accordance with Toronto Stock Exchange guidelines. Vesting is provided for at the discretion of the Board and the expiration of options is to be no greater than 10 years from the date of grant.

Officers, directors and employees
We use the fair value based method of accounting for employee awards granted under the Plan. We calculate the fair value of each stock option grant using the Black Scholes Option Pricing Model and the fair value is recorded over the option’s vesting period.

Non-employees
Stock based compensation to non-employees is recorded at the fair value of the goods received or the services rendered. The fair value is measured at the date we obtain the goods or the date the counterparty renders the service. If the fair value of the goods or services cannot be reliably valued the fair value of the options granted will be used.

Financial instruments

Financial assets
Financial assets are comprised of cash and cash equivalents, accounts receivable, short-term investments and long term investment. Financial assets are initially recorded at fair market value and are classified as follows:

Cash and cash equivalents
Cash and cash equivalents consist of cash on hand and interest bearing deposits with our bank and have been designated as held for trading.

Accounts receivable
Accounts receivable have been classified as loans and receivables.

Short-term investments
We determine the appropriate classification of our short-term investments at the time of purchase and re-evaluate such classification as of each balance sheet date. We classify our short-term investments as held-to-maturity as we have the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at original cost, adjusted for amortization of premiums and accretion of discounts to maturity computed under the effective interest rate method. Such amortization and interest on securities classified as held-to-maturity are included in interest income.

Long term investment
We classified our long term investment as available-for-sale.

Impairment of financial assets
We assess at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Financial liabilities

Trade accounts payable
Trade accounts payable are non interest-bearing and recorded at fair market value. They are classified as Other Financial Liabilities and are subsequently measured at amortized cost using the effective interest rate method.

Warrant liability
Warrants with an exercise price denominated in a foreign currency are recorded as a Warrant Liability and classified as fair value through profit and loss. The Warrant Liability is initially measured at estimated fair value with subsequent changes in fair value recorded as a gain or loss in the consolidated statement of loss and comprehensive loss. These warrants have not been listed on an exchange and therefore do not trade on an active market.

Fair Value Measurement
The accounting guidance for fair value measurements prioritizes the inputs used in measuring fair value into the following hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable;

Level 3 - Unobservable inputs in which little or no market activity exists, therefore requiring an entity to develop its own assumptions about the assumptions that market participants would use in pricing.

The fair value of our Warrant Liability is based on level 2 (significant observable inputs).

Transaction Costs

Transaction costs are expensed as incurred for financial instruments designated as held for trading. Transaction costs for other financial instruments are recognized as part of the financial instrument's carrying value.

Asset held for sale

Assets are classified as held for sale if their carrying amount will be recovered primarily through a sale as opposed to continued use. Assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Depreciation ceases when an asset is classified as held for sale.

Deferred income taxes

We follow the liability method of accounting for income taxes. Under the liability method, deferred income taxes are recognized for the difference between financial statement carrying values and the respective income tax basis of assets and liabilities (temporary differences). Deferred income tax assets and liabilities are measured using substantively enacted income tax rates and laws expected to apply in the years in which temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is charged or credited to income, except when it is related to items charged or credited to either other comprehensive income or directly to equity.

Accounting Standards and Interpretations Issued but Not Yet Effective

In November 2009, the International Accounting Standard Board ("IASB") issued IFRS 9 *Financial Instruments* which replaced the classification and measurement requirements in IAS 39 *Financial Instruments: Recognition and Measurement* for financial assets. In October 2010, the IASB issued additions to IFRS 9 regarding financial liabilities. The new standard is effective for annual periods beginning on our after January 1, 2013 with earlier adoption permitted. We do not anticipate that there will be a material impact on our financial position or results of operations.

Note 5: Significant Judgments, Estimates and Assumptions

Judgments

The preparation of our consolidated financial statements requires us to make judgments, estimates and assumptions that affect the reported amount of expenses, assets, liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and assumptions

Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of expenses during the reporting periods. Actual results could differ from those estimates and such differences could be significant. Significant estimates made by management affecting our consolidated financial statements include:

Stock based compensation
We measure our stock based compensation expense by reference to the fair value of the stock options at the date at which they are granted. Estimating fair value for granted stock options requires determining the most appropriate valuation model which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions and model used for estimating fair value for stock based compensation transactions are disclosed in note 8 of our audited 2010 consolidated financial statements.

Warrant liability
We measured our initial warrant liability and subsequent revaluations of our warrant liability by reference to the fair value of the warrants at the date at which they were granted and subsequently revalued at each reporting date. Estimating fair value for these warrants required determining the most appropriate valuation model which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the warrants, volatility and dividend yield and making assumptions about them.

Asset held for sale
We have written down our asset held for sale to $nil. We have used management judgment pertaining to the timing and potential results of the ongoing sales process. We concluded, under current market conditions, that we would not be able to complete a sale in a timely manner. As well, assumptions have been made and estimates used in assessing the fair value of the associated intellectual property.

Taxes
Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Currently, we are accumulating tax loss carry forward balances in various tax jurisdictions creating a deferred tax asset. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

To date we have determined that none of our deferred tax assets should be recognized. Our deferred tax assets are mainly comprised of our net operating losses from prior years, prior year research and development expenses, and investment tax credits. These tax pools relate to entities that have a history of losses, have varying expiry dates, and

may not be used to offset taxable income within our other subsidiaries. As well, there are no taxable temporary differences or any tax planning opportunities available that could partly support the recognition of these losses as deferred tax assets.

Note 6: Cash Equivalents and Short Term Investments

Cash Equivalents

Cash equivalents consist of interest bearing term deposits with our bank totaling $38,060,217 (December 31, 2010 – $34,337,595; January 1, 2010 - $15,518,939). The current annual interest rate earned on these deposits is 1.1% (December 31, 2010 – 1.06%; January 1, 2010 – 0.30%).

Short-Term Investments

Short-term investments which consist of guaranteed investment certificates are liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The objectives for holding short-term investments are to invest our excess cash resources in investment vehicles that provide a better rate of return compared to our interest bearing bank account with limited risk to the principal invested. We intend to match the maturities of these short-term investments with the cash requirements of the Company's activities and treat these as held-to-maturity short-term investments.

	Face Value $	**Original Cost** $	**Accrued Interest** $	**Carrying Value** $	**Fair Value** $	**Effective Interest Rate** %
June 30, 2011						
Short-term investments	**1,929,306**	**1,929,306**	**Nil**	**1,929,306**	**1,929,306**	**1.68%**
December 31, 2010						
Short-term investments	3,609,246	3,609,246	Nil	3,609,246	3,609,246	0.30%

Fair value is determined by using published market prices provided by our investment advisor.

Note 7: Asset Held for Sale

In 2009, we acquired all of the convertible preferred shares of British Canadian Biosciences Corp. ("BCBC"), a privately held biotechnology company specializing in the development of peptides for the treatment of a variety of conditions, including cancer. In February 2010, we completed the conversion of our preferred share holding in BCBC into common shares. As a result of this conversion we owned 10% of the issued common shares of BCBC. The common shares of BCBC do not have a quoted market price in an active market. BCBC's only asset is intellectual property.

In the fourth quarter of 2010, BCBC concluded that it was unable to obtain additional financing to support its business and subsequently suspended operations. In November 2010, we purchased an additional 60% of the common shares of BCBC for $51,681 which included cash and the settlement of certain trade accounts payable. As the operations of BCBC had been suspended, its only remaining asset was intellectual property. In conjunction with this purchase, we assessed the cost of our investment against the estimated fair value of BCBC using a cash flow analysis and determined that the estimated fair value of our investment was in excess of our cost. At the end of 2010, we began the process to sell BCBC and as a result we had reflected our investment in BCBC's intellectual property as an asset held for sale. As at June 30, 2011, despite our efforts to sell our investment in BCBC, we have been unsuccessful in completing a sale. As a result, we have written down our investment in BCBC to $nil, but will continue to pursue potential future buyers.

Note 8: Share Capital

Authorized:
Unlimited number of no par value common shares

Issued:	**Shares**		**Warrants**		
	Number	**Amount** $	**Number**	**Equity Amount** $	**Liability Amount** $
Balance, January 1, 2010	61,549,969	131,908,274	4,255,000	2,437,460	1,023,051
Issued for cash pursuant to November 8, 2010 bought deal financing [(a)]	6,256,000	22,639,720	3,503,360	4,120,202	—
Exercise of warrants	119,900	787,507	(119,900)	(11,010)	(328,200)
Expired warrants	—	—	(2,300,000)	(2,438,000)	—
Exercise of stock options	32,433	104,109	—	—	—
Revaluation of warrant liability	—	—	—	—	4,841,949
Balance, December 31, 2010	67,958,302	155,439,610	5,338,460	4,108,652	5,536,800
Exercise of US$3.50 warrants	1,833,600	11,897,142	(1,833,600)	—	(5,500,800)
Exercise of warrants	1,322,750	9,589,938	(1,322,750)	(1,455,025)	—
Exercise of stock options	99,666	253,052	—	—	—
Expired warrants	—	—	(12,000)	—	(36,000)
Balance, June 30, 2011	**71,214,318**	**177,179,742**	**2,170,110**	**2,653,627**	—

(a) Pursuant to a bought deal financing, 6,256,000 units were issued at an issue price of $4.60 per unit for gross proceeds of $28,777,600. Each unit included one common share (ascribed value of $4.05) and 0.50 of one common share purchase warrant (ascribed value of $0.55). The ascribed value was determined using the relative fair value method. Each common share purchase warrant entitles the holder to acquire one common share in the capital of the Company upon payment of $6.15 per share until November 8, 2012. Share issue costs for this offering were $2,697,081. In addition, we issued 375,360 common share purchase warrants with an exercise price of $4.60 that expires on November 8, 2012 to the brokerage firm assisting with the transaction. The ascribed value of these broker warrants was $679,402 ($1.81 per broker warrant) and has been included in the share issue costs above. The ascribed values of the warrants were determined using Black Scholes.

Warrants – liability

Under IFRS, the prescribed accounting treatment for warrants with an exercise price denominated in a foreign currency is to treat these warrants as a liability measured at fair value with subsequent changes in fair value accounted for through the consolidated statement of loss. The fair value of these warrants is determined using the Black Scholes Option Pricing Model. Our warrants with an exercise price of U.S.$3.50 meet this requirement and we have presented the value of these warrants as a deemed current liability on the consolidated statement of financial position. As these warrants are exercised, the value of the recorded warrant liability is included in our share capital along with the proceeds from the exercise. If these warrants expire, the related warrant liability is reversed through the statement of loss. There is no cash flow impact as a result of this accounting treatment.

As at June 30, 2011, our warrant liability is $nil (December 31, 2010 - $5,536,800; January 1, 2010 - $1,023,051) as these warrants were either exercised or expired on January 24, 2011.

Warrants – equity

The following table summarizes the weighted average assumptions used in the Black Scholes Option Pricing Model with respect to the valuation of warrants and broker warrants issued:

	2010
Risk-free interest rate	**1.40%**
Expected hold period to exercise	**2.00**
Volatility in the price of the Company's shares	**61.9%**
Dividend yield	**Zero**

The following table summarizes our outstanding warrants as at June 30, 2011:

Exercise Price	**Outstanding, Beginning of the Period**	**Granted During the Period**	**Exercised During the Period**	**Expired During the Period**	**Outstanding, End of Period**	**Weighted Average Remaining Contractual Life (years)**
US$3.50	1,845,600	—	(1,833,600)	(12,000)	—	—
$4.60	375,360	—	—	—	375,360	1.33
$6.15	3,117,500	—	(1,322,750)	—	1,794,750	1.33
	5,338,460	—	(3,156,350)	(12,000)	2,170,110	1.33

Note 9: Share Based Payments

Stock Option Plan

We have issued stock options to acquire common stock through our stock option plan of which the following are outstanding at June 30:

	2011		2010	
	Stock Options	Weighted Average Exercise Price $	Stock Options	Weighted Average Exercise Price $
Outstanding, beginning of the period	**4,703,760**	**4.53**	3,936,543	4.72
Granted during the period	**112,000**	**5.88**	—	—
Cancelled during the period	**(86,000)**	**9.78**	—	—
Exercised during the period	**(99,666)**	**2.08**	—	—
Outstanding, end of the period	**4,630,094**	**4.51**	3,936,543	4.72
Options exercisable, end of the period	**4,481,261**	**4.50**	3,875,026	4.75

The following table summarizes information about the stock options outstanding and exercisable at June 30, 2011:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price $	Number Exercisable	Weighted Average Exercise Price $
$1.45 - $2.37	699,094	4.8	2.10	677,761	2.11
$2.70 - $3.60	1,399,750	5.7	3.14	1,384,750	3.14
$4.00 - $5.00	1,334,750	3.9	4.95	1,222,250	4.87
$6.72 - $9.76	1,196,500	7.3	7.05	1,196,500	7.05
	4,630,094	5.5	4.51	4,481,261	4.50

The outstanding options vest annually or after the completion of certain milestones. We have reserved 6,154,997 common shares for issuance relating to outstanding stock options.

Compensation expense related to options granted to employees and directors was $43,342 (2010 – $2,428).

The estimated fair value of stock options issued during the period was determined using the Black Scholes Option Pricing Model using the following weighted average assumptions and fair value of options:

	2011
Risk-free interest rate	**2.07%**
Expected hold period to exercise	**3.5 years**
Volatility in the price of the Company's shares	**55.53%**
Dividend yield	**Nil**
Weighted average fair value of options	**$2.43**

We use historical data to estimate the expected dividend yield and expected volatility of our stock in determining the fair value of the stock options. The risk-free interest rate is based on the Government of Canada marketable bond rate in effect at the time of grant and the expected life of the options represents the estimated length of time the options are expected to remain outstanding.

Note 10: Loss Per Common Share

Loss per common share is calculated using the weighted average number of common shares outstanding for the three and six month period ending June 30, 2011 of 71,209,164 and 70,586,073, respectively (2010 – 61,556,343 and 61,553,173, respectively). The effect of any potential exercise of our stock options and warrants outstanding during the year has been excluded from the calculation of diluted loss per common share, as it would be anti-dilutive.

Note 11: Commitments

We are committed to payments totaling $2,453,000 for activities related to our clinical trial program and collaborations.

We are committed to rental payments (excluding our portion of operating costs and rental taxes) under the terms of a lease for office premises which expires on May 31, 2016. Annual payments under the terms of this lease are as follows:

	Amount $
2011	21,306
2012	88,792
2013	91,332
2014	94,888
2015	97,428
2016	40,595
	434,341

Under a clinical trial agreement entered into with the Alberta Cancer Board ("ACB"), we have agreed to repay the amount funded under the agreement together with a royalty, to a combined maximum amount of $400,000 plus an overhead repayment of $100,000, upon sales of a specified product. We agreed to repay the ACB in annual installments in an amount equal to the lesser of: (a) 5% of gross sales of a specified product; or (b) $100,000 per annum.

Note 12: Contingencies

Assumption Agreement

During 1999, the Company entered into an agreement that assumed certain obligations (the "Assumption Agreement") in connection with a Share Purchase Agreement (the "Agreement") between SYNSORB and the former shareholders of the Company to make milestone payments and royalty payments.

As of March 31, 2011, a milestone payment was still outstanding for $1.0 million, due within 90 days of the first receipt from an Appropriate Regulatory Authority, for marketing approval to sell REOLYSIN® to the public or the approval of a new drug application for REOLYSIN®.

This milestone payment, when payable, will be accounted for as research and development expense and will not be deductible for income tax purposes.

In addition to the milestone payment, payments may become due and payable in accordance with the Agreement upon realization of sales of REOLYSIN®. If we receive royalty payments or other payments as a result of entering into partnerships or other arrangements for the development of the reovirus technology, we are obligated to pay to the founding shareholders 11.75% of the royalty payments and other payments received. Alternatively, if we develop the reovirus treatment to the point where it may be marketed at a commercial level, the payments referred to in the foregoing sentence will be amended to a royalty payment of 2.35% of Net Sales received by the Company for such products.

BRI "Work in Kind" Contribution

We entered into an engineering and process development agreement with the Biotechnology Research Institute of the National Research Council of Canada ("BRI"). The terms of this Agreement include a "work in kind" contribution from BRI. In exchange for this "work in kind" contribution, we agreed to provide a royalty, contingent upon receiving Sales Revenue, at the lesser of 0.5% of Sales Revenue or $20,000 per year. The total royalty under this Agreement is equal to two times the "work in kind" contribution. As of June 30, 2011, we estimate that the accumulated work in kind totals approximately $301,000.

Note 13: Capital Disclosures

Our objective when managing capital is to maintain adequate cash resources to support planned activities which include the clinical trial program, product manufacturing, administrative costs and intellectual property expansion and protection. We include shareholders' equity, any warrant liability, cash and cash equivalents and short-term investments in the definition of capital.

	June 30, 2011	**December 31, 2010**	**January 1, 2010**
	$	**$**	**$**
Cash and cash equivalents	**46,640,231**	39,296,682	32,448,939
Short-term investments	**1,929,306**	3,609,246	1,679,937
Warrant liability	—	5,536,800	1,023,051
Shareholders' equity	**45,504,014**	36,394,960	30,343,407

At June 30, 2011, we do not have any debt other than trade accounts payable and we have potential contingent obligations relating to the completion of our research and development of REOLYSIN®.

In managing our capital, we estimate our future cash requirements by preparing a budget and a multi-year plan annually for review by our Board of Directors (the "Board"). The budget establishes the approved activities for the upcoming year and estimates the costs associated with these activities. The multi-year plan estimates future activity along with the potential cash requirements and is based on our assessment of our current clinical trial progress along with the expected results from the coming year's activity. Budget to actual variances are prepared and reviewed by management and are presented quarterly to the Board.

Historically, funding for our plan is primarily managed through the issuance of additional common shares and common share purchase warrants that upon exercise are converted to common shares. Management regularly monitors the capital markets attempting to balance the timing of issuing additional equity with our progress through our clinical trial program, general market conditions, and the availability of capital. There are no assurances that

funds will be made available to us when required.

On June 10, 2010, we renewed our existing short form base shelf prospectus (the "Base Shelf") that qualifies for distribution up to $150,000,000 of common shares, subscription receipts, warrants, or units (the "Securities"). Under our Base Shelf, we may sell Securities to or through underwriters, dealers, placement agents or other intermediaries and also may sell Securities directly to purchasers or through agents, subject to obtaining any applicable exemption from registration requirements. The distribution of Securities may be effected from time to time in one or more transactions at a fixed price or prices, which may be changed, at market prices prevailing at the time of sale, or at prices related to such prevailing market prices to be negotiated with purchasers and as set forth in an accompanying Prospectus Supplement.

Renewing our Base Shelf provides us with additional flexibility when managing our cash resources as, under certain circumstances, it shortens the time period required to close a financing and is expected to increase the number of potential investors that may be prepared to invest in our company. Funds received from a Prospectus Supplement will be used in line with our Board approved budget and multi-year plan. The Base Shelf expires on July 10, 2012 and we have registered 9,759,360 units under this shelf.

We are not subject to externally imposed capital requirements and there have been no changes in how we define or manage our capital.

Note 14: Financial Instruments

Our financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable, accounts payable, and warrant liability. As at June 30, 2011, there are no significant differences between the carrying values of these amounts and their estimated market values due to their short-term maturities.

Credit risk
Credit risk is the risk of financial loss if a counterparty to a financial instrument fails to meet its contractual obligations. We are exposed to credit risk on our cash and cash equivalents and short-term investments in the event of non-performance by counterparties, but we do not anticipate such non-performance. Our maximum exposure to credit risk at the end of the period is the carrying value of our cash and cash equivalents and short-term investments.

We mitigate our exposure to credit risk by maintaining our primary operating and investment bank accounts with Schedule I banks in Canada. For our foreign domiciled bank accounts, we use referrals or recommendations from our Canadian banks to open foreign bank accounts and these accounts are used solely for the purpose of settling accounts payable or payroll.

We also mitigate our exposure to credit risk by restricting our portfolio to investment grade securities with short-term maturities and by monitoring the credit risk and credit standing of counterparties. Currently, 100% of our short-term investments are in guaranteed investment certificates.

Interest rate risk
Interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. We are exposed to interest rate risk through our cash and cash equivalents and our portfolio of short-term investments. We mitigate this risk through our investment policy that only allows investment of excess cash resources in investment grade vehicles while matching maturities with our operational requirements.

Fluctuations in market rates of interest do not have a significant impact on our results of operations due to the short term to maturity of the investments held.

Currency risk
Currency risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. We are exposed to currency risk from the purchase of goods and services primarily in the U.S., the

U.K and the European Union and to the extent cash is held in foreign currencies. The impact of a $0.01 increase in the value of the U.S. dollar against the Canadian dollar would have decreased our net loss in 2011 by approximately $5,763. The impact of a $0.10 increase in the value of the British pound against the Canadian dollar would have increased our net loss in 2011 by approximately $20,767. The impact of a $0.10 increase in the value of the Euro against the Canadian dollar would have decreased our net loss in 2011 by approximately $8,148

We mitigate our foreign exchange risk through the purchase of foreign currencies in sufficient amounts to settle our foreign accounts payable.

Balances in foreign currencies at June 30, 2011 are as follows:

	U.S. dollars	**British pounds**	**Euro**
	$	£	
Cash and cash equivalents	6,877,323	549,325	264,135
Accounts payable	(2,416,661)	(78,791)	(104,874)
	4,460,662	470,534	159,261

Liquidity risk
Liquidity risk is the risk that we will encounter difficulty in meeting obligations associated with financial liabilities. We manage liquidity risk through the management of our capital structure as outlined in Note 13. Accounts payable are all due within the current operating period.

Note 15: Additional Cash Flow Disclosures

Net Change In Non-Cash Working Capital

	Three Month Period Ending June 30, 2011	**Three Month Period Ending June 30, 2010**	**Six Month Period Ending, June 30, 2011**	**Six Month Period Ending, June 30, 2010**
	$	**$**	**$**	**$**
Change in:				
Accounts receivable	**21,232**	(25,632)	**233,567**	6,142
Prepaid expenses	**(450,605)**	(296,866)	**(561,510)**	(211,010)
Accounts payable and accrued liabilities	**1,846,869**	706,950	**1,685,457**	(587,361)
Net change associated with operating activities	**1,417,496**	384,452	**1,357,514**	(792,229)

Note 16: Other Expenses and Adjustments

We present our expenses based on the function of each expense and therefore include realized foreign exchange gains and losses, unrealized non-cash foreign exchange gains and losses, and non-cash stock based compensation as a component of research and development expenses and amortization of property and property and equipment as a component of operating expenses.

	Three Month Period Ending June 30, 2011 $	**Three Month Period Ending June 30, 2010 $**	**Six Month Period Ending, June 30, 2011 $**	**Six Month Period Ending, June 30, 2010 $**
Included in research and development expenses:				
Realized foreign exchange loss (gain)	**25,813**	(31,817)	**10,291**	(49,333)
Unrealized non-cash foreign exchange loss (gain)	**28,978**	(293,534)	**220,127**	(74,546)
Non-cash stock based compensation	**40,469**	1,399	**43,342**	2,428
Included in operating expenses				
Amortization of property and equipment	**29,992**	14,621	**47,267**	29,506

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