



QUARTERLY REPORT

Periods ended December 31, 2008

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

This analysis, dated February 12, 2009, should be read together with our interim consolidated financial statements and notes thereto for the periods ended December 31, 2008, which have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). For discussion regarding commercial commitments, critical accounting policies, recent accounting pronouncement, and risks and uncertainties, refer to the Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended March 31, 2008. Except where specifically indicated, all dollar amounts stated in this analysis are in Canadian dollars.

This analysis contains forward-looking statements and information which are subject to material risks and uncertainties. Such statements are not historical facts and are based on the current expectations of management. You are cautioned that such statements are subject to a multitude of risks and uncertainties that could cause actual results, future circumstances, or events to differ materially from those projected in the forward-looking information. These risks include, but are not limited to, the results of our clinical trials, the regulatory approval process, competition, securing and maintaining corporate alliances, acceptance of our products, the availability of government and insurance reimbursements for our products, the strength of intellectual property, our financing capability, our reliance on subcontractors and our key personnel, and other risks and uncertainties detailed in "Risks and Uncertainties" section of the present report.

Readers should not place undue reliance on the forward-looking information, given that (i) our actual results could differ materially from a conclusion, forecast or projection in the forward-looking information, and (ii) certain material factors or assumptions, which were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking information, could prove to be inaccurate. Additional information about (i) the material factors that could cause actual results to differ materially from the conclusion, forecast or projection in the forward-looking information, and (ii) the material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking information, is contained in the documents filed from time to time with the Canadian securities commissions which are available at www.sedar.com.

Any statements that are contained in this analysis that are not statements of historical facts may be deemed to be forward-looking statements made pursuant to the Ontario Securities Act and the Private Securities Litigation Reformation Act of 1995. Without limiting the foregoing, the words "believe", "anticipates", "plans", "estimates", "intends", "will", "should", "expects", "projects", and similar expressions are intended to identify forward-looking statements.

All forward-looking statements attributable to us are expressly qualified in their entirety by the above cautionary statements. These statements speak only as of the date they are made, and we assume no obligation to revise such statements as a result of any event, circumstance or otherwise, except in accordance with law.

DESCRIPTION OF BUSINESS

BioSyntech, Inc ("the Company") is a medical device company specialized in the development, manufacturing and commercialization of advanced biotherapeutic thermogels for regenerative medicine (tissue repair) and therapeutic delivery. Biosyntech's platform technology is a family of hydrogels called BST-Gel[®], some of which are liquid at low temperature and solid at human body temperature. These gels can be injected or applied to a specific local site and offer beneficial properties for the local repair of damaged tissue such as cartilage, bone and chronic wounds and provide the benefit of avoiding invasive surgery. The Company's lead, late-stage product, BST-CarGel[®] is currently undergoing an international pivotal trial. The Company has had limited revenues to date generated almost entirely by sales of instrumentation products and purified chitosan, called *Ultrasan*.

HIGHLIGHTS OF THE LAST QUARTER

One of the Company's key milestone is to complete enrolment for the Canadian-European pivotal trial of its cartilage repair device, BST-Cargel®. The Company worked on achieving its planned objective of enrolling 80 patients into the randomized trial and subsequent to the end of the quarter, completed the enrolment. The Company is also working to complete the Investigational Device Exemption ("IDE") application process with the U.S. Food and Drug Administration (the "FDA"), which will define the data requirements for the regulatory clearance of BST-Cargel® in the United States of America. Management believes that obtaining this clarity will enhance the attractiveness of the Company's product to potential partners and, as such, is an important near term milestone for the Company to achieve.

A number of changes occurred in our Management team, including the departure of our President and Chief Executive Officer and the eventual departure our Chief Financial Officer. Other positions were also abolished or combined as a result of the implementation of the streamlined business plan adopted by the Board of Directors on June 23, 2008.

The Company's anticipated level of annual expenditures exceeds the Company's cash and cash equivalents on hand on December 31, 2008. Therefore, a going concern uncertainty note was added in note 2 of the unaudited interim consolidated financial statements.

SUMMARY OF OPERATING RESULTS

REVENUES

During the three-month period ended December 31, 2008, the Company had revenues of \$3,198 compared to revenues of \$21,193 for the three-month period ended December 31, 2007. During the nine-month period ended December 31, 2008, the Company had revenues of \$17,065 compared to revenues of \$125,357 for the nine-month period ended December 31, 2007. The decreases in revenues were mainly due to not selling instrumentation products and having no revenues from research contracts.

RESEARCH AND DEVELOPMENT

Research and development expenses were \$1,646,645 for the three-month period ended December 31, 2008 compared to \$1,568,786 for the three-month period ended December 31, 2007, representing an increase of \$77,859. These expenses are mainly represented by remuneration and consumables of \$612,220 (\$885,869 in 2007), by research contracts of \$927,999 (\$634,873 in 2007) and by grant of stock options of \$79,470 (\$20,777 in 2007). The increase was mainly due to higher research contract and higher expenses related to options granted partly offset by lower compensation expenses. Research and development expenses were \$4,631,213 for the nine-month period ended December 31, 2008 compared to \$4,404,126 for the nine-month period ended December 31, 2007, representing an increase of \$227,087. These expenses are mainly represented by remuneration and consumables of \$2,254,911 (\$2,508,031 in 2007), by research contracts of \$2,197,167 (\$1,674,117 in 2007) and by stock-based compensation of \$119,532 (\$161,287 in 2007). The increase was mainly due to higher research contracts only partly offset by lower compensation expenses and lower expenses related to options granted. The Company anticipates that the research and development expenses will fluctuate as its lead product will evolve in more advanced clinical development stages. However, as a result of the risks and uncertainties, we are unable to estimate the specific timing and future costs of our research and development programs.

INVESTMENT TAX CREDITS

The Company claimed investment tax credits on all eligible research and development expenses. The amount recognized for the three-month period ended December 31, 2008 was \$213,095 compared to \$272,582 for the three-month period ended December 31, 2007, representing a decrease of \$59,847. The amount recognized for the nine-month period ended December 31, 2008 was \$644,095 compared to \$637,582 for the nine-month period ended December 31, 2007, representing an increase of \$6,513. The change recorded in investment tax credits is directly attributable to the level of eligible research and development expenses.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses were \$548,633 for the three-month period ended December 31, 2008 compared to \$917,521 for the three-month period ended December 31, 2007, representing a decrease of \$368,888. These expenses are mainly represented by remuneration and office supplies of \$97,962 (\$541,078 in 2007), by professional fees of \$330,273 (\$155,433 in 2007), by marketing and investor relations expenses of \$54,044 (\$144,975 in 2007) and by grant of stock options of \$8,229 (\$15,136 in 2007). General and administrative expenses were \$2,243,719 for the nine-month period ended December 31, 2008 compared to \$2,766,657 for the nine-month period ended December 31, 2007, representing a decrease of \$522,938. These expenses are mainly represented by remuneration and office supplies of \$1,048,344 (\$1,597,878 in 2007), by professional fees of \$686,874 (\$388,897 in 2007), by marketing and investor relations expenses of \$323,649 (\$452,781 in 2007) and by stock-based compensation of \$38,082 (\$150,510 in 2007). The decreases were mainly due to lower remuneration as a result of the restructuring, lower compensation expenses related to options granted, lower marketing and investor relations expenses partly offset by higher professional fees.

DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

Depreciation expense was \$84,332 for the three-month period ended December 31, 2008 compared to \$93,652 for the three-month period ended December 31, 2007, representing a decrease of \$9,320. Depreciation expense was \$273,164 for the nine-month period ended December 31, 2008 compared to \$286,414 for the nine-month period ended December 31, 2007, representing a decrease of \$13,250.

AMORTIZATION OF PATENTS AND TRADEMARKS

Amortization expense was \$18,770 for the three-month period ended December 31, 2008 compared to \$12,873 for the three-month period ended December 31, 2007, representing an increase of \$5,897. Amortization expense was \$45,772 for the nine-month period ended December 31, 2008 compared to \$37,146 for the nine-month period ended December 31, 2007, representing an increase of \$8,626.

AMORTIZATION OF DEBT ISSUE COSTS

Amortization expense was \$13,735 for the three-month period ended December 31, 2008 compared to an amortization expense of \$17,628 for the three-month period ended December 31, 2007, representing a decrease of \$3,893. Amortization expense was \$44,169 for the nine-month period ended December 31, 2008 compared to an amortization expense of \$55,108 for the nine-month period ended December 31, 2007, representing a decrease of \$10,939.

ACCRETION OF CARRYING VALUE OF THE SUBORDINATED SECURED CONVERTIBLE DEBENTURES AND INTEREST

Accretion in the carrying value of the subordinated secured convertible debentures and interest amount to \$1,029,436 for the three-month and \$1,819,255 for the nine-month periods ended December 31, 2008 compared to nil for the three-month and nine-month periods ended December 31, 2007. The carrying values of the convertible debentures are being accreted to their maturity values through charges to income over the term of the debentures based on the effective yield method.

INTEREST INCOME AND INTEREST EXPENSE

Interest income for the three-month period ended December 31, 2008 was \$46,741 compared to \$75,288 for the three-month period ended December 31, 2007, representing a decrease of \$28,547. Interest income for the nine-month period ended December 31, 2008 was \$120,834 compared to \$279,309 for the nine-month period ended December 31, 2007, representing a decrease of \$158,475. The decrease of the interest income is mainly due to the decrease in the average cash position compared to the same periods last year.

Interest expense was \$60,252 for the three-month period ended December 31, 2008 compared to \$90,851 for the three-month period ended December 31, 2007, representing a decrease of \$30,599. Interest expense was \$205,009 for the nine-month period ended December 31, 2008 compared to \$287,987 for the nine-month period ended December 31, 2007, representing a decrease of \$82,978. The decrease is due to lower interest rates and a lower debt level on the Investissement Québec long term debt.

LOSS ON FOREIGN EXCHANGE

The Company maintains US funds to cover certain expenses payable in that currency. Loss on foreign exchange was \$16,587 for the three-month period ended December 31, 2008 compared to a gain of \$437 for the three-month period ended December 31, 2007, representing a change of \$17,024. Loss on foreign exchange was \$22,835 for the nine-month period ended December 31, 2008 compared to a gain of \$8,538 for the nine-month period ended December 31, 2007, representing a change of \$31,373.

RESTRUCTURING COSTS

The restructuring costs were \$1,356,358 for the quarter and nine-month periods ended December 31, 2008 compared to nil for the three-month and nine-month periods ended December 31, 2007. The restructuring costs are mainly comprised of severances as dictated by contractual agreements and termination fees in accordance with Quebec common practice.

LOSS

The loss for the three-month period ended December 31, 2008 amounted to \$4,513,255 (\$0.05 per share), compared to \$2,338,932 (\$0.02 per share) for the three-month period ended December 31, 2007. The loss for the nine-month period ended December 31, 2008 amounted to \$9,868,299 (\$0.10 per share), compared \$6,821,392 (\$0.07 per share) for the nine-month period ended December 31, 2007. Limited sales and significant expenses are still being incurred in the development of the Company's products.

QUARTERLY FINANCIAL INFORMATION (unaudited)

	Quarters ended			
	December 31, 2008 (CA\$)	September 30, 2008 (CA\$)	June 30, 2008 (CA\$)	March 31, 2008 (CA\$)
Revenues	3,198	-	12,368	148,568
Net loss	(4,513,255)	(3,013,675)	(2,341,369)	(2,415,816)
Basic and diluted loss per share	(0.05)	(0.03)	(0.02)	(0.03)

	Quarters ended			
	December 31, 2007 (CA\$)	September 30, 2007 (CA\$)	June 30, 2007 (CA\$)	March 31, 2007 (CA\$)
Revenues	21,193	94,368	9,796	77,380
Net loss	(2,338,932)	(2,243,669)	(2,238,791)	(2,472,841)
Basic and diluted loss per share	(0.02)	(0.02)	(0.02)	(0.03)

The net loss in each quarter of the year reflects the research and development efforts and the Company's organizational structure to develop its business plan.

LIQUIDITY AND CAPITAL RESOURCES

The Company has limited operating history and has not made significant sales of its products. Therefore, revenues are difficult to predict. As of December 31, 2008, the Company had cash and cash equivalents in the amount of \$6,293,849 compared to \$2,835,806 at March 31, 2008. This increase reflects mainly the financing activities resulting from the issuance of the convertible debentures less funds used for operating and investing activities.

Additions to property, plant and equipment for the three-month period ended December 31, 2008 amounted to \$27,770, compared to \$20,327 for the three-month period ended December 31, 2007. Additions to property, plant and equipment for the nine-month period ended December 31, 2008 amounted to \$227,154, compared to \$40,155 for the nine-month period ended December 31, 2007. The additions are related to laboratory equipments. Additions to patent costs for the three-month period ended December 31, 2008 amounted to \$20,661, compared to \$24,236 for the three-month period ended December 31, 2007. Additions to patent costs for the nine-month period ended December 31, 2008 amounted to \$41,159, compared to \$67,849 for the nine-month period ended December 31, 2007.

Net proceeds from the issue of a convertible debenture for the nine-month period ended December 31, 2008 amounted to \$11,353,148 compared to nil for the nine-month period ended December 31, 2007. These proceeds were and will be used to fund the development of our technology platform, the clinical trial of our leading product and our general working capital.

We believe that our current cash and cash equivalents will not be sufficient to carry out our current research and development plans and operations for the next twelve months. Our ability to continue as a going concern is dependent upon our ability to obtain additional financing. Management is currently exploring various strategic and financing alternatives; a restructuring is also under way. If the Company is unable to obtain additional financing, it may be required to curtail its operations. There can be no assurance that such strategic and financing alternatives will materialize on a timely basis or be obtained of favourable terms. Please refer to Note 2 – Basis of Presentation and Going Concern Assumption – and Note 5 – Restructuring Costs – of the unaudited interim consolidated financial statements of the Company as of December 31, 2008 and the quarter then ended for more details.

As of February 12, 2009, the number of common shares issued and outstanding was 96,087,015, while outstanding options granted under the stock option plan amounted to 7,671,500. In addition, 56,975,000 warrants were outstanding and the debentures may be converted in to 62,150,000 common shares at the option of the holders. The Company is therefore committed to issue upon exercise an aggregate of 126,806,500 additional common shares with respect to options, warrants and other rights outstanding as of that date.

RELATED PARTY TRANSACTIONS

The Company terminated a consulting services agreement with a shareholder and director in December 2008. These transactions have been recorded at exchange amounts, which are the consideration established and agreed to by the related parties. The Company recorded \$30,000 in general and administrative and \$187,000 in restructuring costs in the statement of operations.

COMMITMENTS

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

As at December 31, 2008, our future contractual commitments primarily consisted of operating leases for office equipment, clinical trials outsourcing agreements and collaboration research agreement as well as payments in relation to long-term debt and the convertible debentures.

The following table sets our contractual obligations by calendar years as of December 31, 2008:

	Total \$	2009 \$	2010 \$	2011 \$	2012 \$	2013+ \$	2014+ \$
Subordinated secured convertible debentures	12,430,000	12,430,000	-	-	-	-	-
Interest on subordinated secured convertible debentures (i)	2,180,821	2,180,821	-	-	-	-	-
Long-term debt	2,889,024	633,192	633,232	133,200	133,200	133,200	1,223,000
Interest on long-term debt	1,050,072	186,405	141,749	113,207	103,841	93,893	410,977
Clinical trial agreements	476,106	300,108	176,077	-	-	-	-
Collaboration research agreement	550,000	200,000	200,000	150,000	-	-	-
Operating leases	11,290	9,258	2,032	-	-	-	-

(i) The Company may satisfy its obligation to pay interest by issuing common shares.

DISCLOSURE CONTROLS AND PROCEDURES

The purpose of internal controls over financial reporting is to provide reasonable assurance of the reliability of the Company's financial reporting and of preparation of its financial statements in accordance with Canadian GAAP. The President and Chief Executive Officer and the Chief Financial Officer have assessed whether the Company made any change to its internal controls, during the quarter ended December 31, 2008, that has had or is liable to have a material effect. No such change was found. Upon the resignation of the Chief Financial Officer in February 2009, internal controls may be impacted; Management will take the necessary steps to insure that internal controls over financial reporting will still provide reasonable assurance of the reliability of the Company's financial reporting and of preparation of its financial statements in accordance with Canadian GAAP.

CRITICAL ACCOUNTING POLICIES

The Company's financial statements are based on the selection and application of accounting policies that require management to make certain estimates, judgments and assumptions that the Company believes are reasonable based upon the information available at the time. Refer to BioSyntech's annual 2008 MD&A for discussions of such critical accounting policies.

GOING CONCERN

These interim consolidated financial statements for the period ended December 31, 2008 have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles ("GAAP"). The going concern basis assumes that the Company will continue its operations for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The use of the going concern basis may not be appropriate because, as of December 31, 2008, there was substantial doubt that the Company will be able to continue as a going concern without securing additional financial resources.

The Company has no product from which it can generate significant revenue and has incurred losses each year since its inception, having accumulated a deficit of \$63,116,803 as at December, 31, 2008. Furthermore, deficiency in assets amount to \$3,681,637 and the Company has a negative working capital of \$4,325,836 at December 31, 2008. Also, the Company's anticipated level of annual expenditures exceeds the Company's cash and cash equivalents on hand as of December 31, 2008. In addition, the Company may have to repay the \$12,430,000 subordinated secured convertible debentures at maturity, which is December 2009 (note 4). To date, the Company has financed its cash requirements primarily through equity and debt issuances, investment tax credits and investment income. The success of the Company is dependent upon successful completion of the development of its products, obtaining the necessary regulatory approvals and commercialization of its products, which may be a few years away.

One of the Company's key milestone was completed on February 2, 2009, as the Company has completed enrolment for the Canadian-European pivotal trial of its cartilage repair device, BST-Cargel®. The Company achieved its planned objective of enrolling 80 patients into the randomized trial. The Company is also working to complete the Investigational Device Exemption ("IDE") application process with the U.S. Food and Drug Administration (the "FDA"), which will define the data requirements for the regulatory clearance of BST-Cargel® in the United States of America. Management believes that obtaining this clarity will enhance the attractiveness of the Company's product to potential partners and, as such, is an important near term milestone for the Company to achieve.

Management is currently exploring various strategic and financing alternatives; a restructuring is also under way, as outlined in note 5. If the Company is unable to obtain additional financing, it may be required to curtail its operations. There can be no assurance that such strategic and financing alternatives will materialize on a timely basis or be obtained of favourable terms.

These interim consolidated financial statements for the period ended December 31, 2008 do not reflect adjustments that would be necessary if the going concern basis was not appropriate. Consequently, adjustments would be necessary to the carrying value of assets and liabilities, the reported revenues and expenses and the balance sheet classifications used. Such adjustments could be material.

CHANGES IN ACCOUNTING POLICIES

Effective April 1, 2008, the Company adopted the CICA Handbook Section 1535, *Capital disclosures*, CICA Handbook Section 3862, *Financial Instruments – Disclosure*, and Section 3863, *Financial Instruments – Presentation*. In addition, the Company adopted the amended Section 1400, of the CICA Handbook, *General Standards of Financial Statements Presentation* which includes requirements to assess and disclose an entity's ability to continue as a going concern. These new standards relate to disclosure and presentation only and did not have an impact on the Company's financial results or position.

FUTURE ACCOUNTING CHANGES

GOODWILL AND INTANGIBLE ASSETS

In January 2008, the CICA issued Section 3064, *Goodwill and Intangible Assets*, which will replace Section 3062, *Goodwill and Other Intangible Assets*. The standard provides guidance on the recognition of intangible assets in accordance with the definition of an asset and the criteria for asset recognition as well as clarifying the application of the concept of matching revenues and expenses, whether these assets are separately acquired or internally developed. This standard will apply to the Company's interim and annual financial statements beginning on April 1, 2009. The Company has not yet determined what the impact of adopting this standard will be on the consolidated financial statements.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In 2005, the Accounting Standards Board of Canada ("AcSB") announced that accounting standards in Canada are to converge with IFRS. In February 2008, the CICA confirmed the change over date from current Canadian GAAP to IFRS to be January 1, 2011. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policies which must be addressed. The Company has not yet assessed the future impact of these new standards on its consolidated financial statements.

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company has determined that the carrying values of its short-term financial assets and liabilities, including cash and cash equivalents, accounts receivables, sales tax receivable and other and accounts payable and accrued liabilities, approximates their fair value because of the relatively short periods to maturity of these instruments. The carrying amount of the Company's floating-rate long-term debt approximates its fair value as it bears interest at current commercial floating rates. The carrying amount of the debt component of the subordinated secured convertible debentures approximate its fair value, considering that the debentures were issued in mid-July and they mature on December 31, 2009. Management believes that no significant change occurred in the risk of that instrument.

The Company is exposed to certain financial risks, including currency risk, credit risk, liquidity risk and interest risk.

Currency risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates internationally and portions of its expenses are incurred in US dollars and Euros. A significant change in the currency exchange rates between the Canadian dollar relative to the US dollar or the Euro could have an effect on the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations.

As of December 31, 2008, the Company is exposed to currency risk through its cash and cash equivalents, account receivable and accounts payable and accrued liabilities denominated in US dollars and Euros as follows:

	December 31, 2008		March 31, 2008	
	US Dollar	Euros	US Dollar	Euros
Cash and cash equivalents	86,095	85	3,902	633
Accounts receivable	—	2,901	39,655	-
Accounts payable and accrued liabilities	94,576	3,598	83,141	46,322

Based on the above net exposure as of December 31, 2008, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the US dollar would result in an increase/decrease of \$1,034 in the Company's net loss and a 10% depreciation or appreciation of the Canadian dollar against the Euro would result in an increase/decrease of \$79 in the Company's net loss.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company regularly monitors its credit risk exposure and takes appropriate steps to mitigate the chance of incurring losses. As at December 31, 2008, there were no financial instruments which might expose the Company to significant credit risk concentrations. Cash and cash equivalents are held by Canadian financial institutions.

The Company's receivables consist of accounts receivable and sales tax receivable. Accounts receivable as of December 31, 2008 are all current and the customers have a collection history with the Company

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage as outlined in note 8 of the unaudited interim consolidated financial statements. The Company's anticipated level of annual expenditures exceeds the Company's cash and cash equivalents on hand on December 31, 2008. Therefore, a going concern uncertainty note was added in note 2 of the unaudited interim consolidated financial statements.

Accounts payable and accrued liabilities are all due within the current operating period; the subordinated secured convertible debentures are due on December 31, 2009.

Refer to “Contractual Obligations and Commercial Commitments” for a schedule of contractual obligations by calendar year.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company is exposed to interest rate risk with respect to its debt with Investissement Québec and BDC, which bears interest at a floating rate.

Based on the above net exposure as of December 31, 2008, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the interest rate would result in an increase/decrease of \$19,827 in the Company’s net loss for three-month period.

RISKS AND UNCERTAINTIES

The Company’s operations involve certain risks and uncertainties that are inherent to the Company’s industry and that could impact its business, financial condition or results of operations. Refer to BioSyntech’s annual 2008 MD&A for discussions of such risks and uncertainties. The risks and uncertainties described in BioSyntech’s annual 2008 MD&A are not the only ones that the Company may encounter. Additional risks and uncertainties of which the Company is unaware, or that it currently deems to be immaterial, may also become important factors that affect the Company.

ADDITIONAL INFORMATION ABOUT BIOSYNTECH, INC.

Additional informational relating to BioSyntech, Inc. is available on SEDAR’s website at www.sedar.com.



Interim Consolidated Financial Statements of
(unaudited)

BioSyntech, Inc.
(a development stage company)

Periods ended December 31, 2008 and 2007

BioSyntech, Inc.

A development stage company

INTERIM CONSOLIDATED BALANCE SHEETS

	December 31, 2008 (CA\$) <i>(unaudited)</i>	March 31, 2008 (CA\$) <i>(audited)</i>
ASSETS		
Current assets		
Cash and cash equivalents	6,293,849	2,835,806
Interest receivable	7,288	1,574
Accounts receivable	154,103	142,712
Inventories	20,023	20,671
Investment tax credits	1,389,095	745,000
Prepaid expenses	92,182	172,765
	7,956,540	3,918,528
Property, plant and equipment	2,150,858	2,195,140
Other assets	633,545	619,204
	10,740,943	6,732,872
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
Current liabilities		
Accounts payable and accrued liabilities	2,974,930	1,353,033
Deferred revenues	32,080	32,080
Current portion of long-term debt	549,047	532,071
Subordinated secured convertible debentures <i>(note 4)</i>	8,726,319	-
	12,282,376	1,917,184
Long-term debt	2,140,204	2,543,504
	14,422,580	4,460,688
Shareholders' equity (deficiency)		
Share capital	49,971,198	49,880,635
Warrants <i>(notes 4 and 7)</i>	1,881,784	-
Equity portion of subordinated secured convertible debentures <i>(note 4)</i>	1,784,517	-
Contributed surplus	5,797,667	5,640,053
Deficit accumulated during the development stage	(63,116,803)	(53,248,504)
	(3,681,637)	2,272,184
Basis of presentation and going concern assumption <i>(note 2)</i>		
	10,740,943	6,732,872

See accompanying notes to the unaudited interim consolidated financial statements

BioSyntech, Inc.

A development stage company

**INTERIM CONSOLIDATED STATEMENTS OF
OPERATIONS AND DEFICIT**

For the three-month periods ended December 31, 2008 and 2007

	December 31, 2008 (CA\$) (<i>unaudited</i>)	December 31, 2007 (CA\$) (<i>unaudited</i>)
Revenues		
Sales and services	3,198	21,193
Research contracts	-	-
	3,198	21,193
Expenses		
Cost of sales and services	1,541	7,121
Research and development	1,646,645	1,568,786
Investment tax credits	(213,095)	(272,582)
General and administrative	548,633	917,521
Government grants	-	-
Interest on long-term debt and obligations under capital leases	60,252	90,851
Depreciation of property, plant and equipment	84,332	93,652
Amortization of patents and trademarks	18,770	12,873
Amortization of debt issue costs	13,735	17,628
Accretion of carrying value of subordinated secured convertible debentures and interest	1,029,436	-
Interest revenue	(46,741)	(75,288)
Loss (gain) on foreign exchange	16,587	(437)
Restructuring costs (<i>note 5</i>)	1,356,358	-
	4,516,453	2,360,125
Net loss for the period	(4,513,255)	(2,338,932)
Deficit accumulated during the development stage, beginning of period	(58,603,548)	(48,448,217)
Adjustment to reflect change in accounting policy on financial instruments	-	(45,539)
Deficit accumulated during the development stage, end of period	(63,116,803)	(50,832,688)
Weighted average number of common shares outstanding	96,087,015	95,487,015
Basic and diluted loss per share (<i>note 7</i>)	(0.05)	(0.02)

See accompanying notes to the unaudited interim consolidated financial statements

BioSyntech, Inc.

A development stage company

**INTERIM CONSOLIDATED STATEMENTS OF
COMPREHENSIVE LOSS**

For the three-month periods ended December 31, 2008 and 2007

	December 31, 2008 (CA\$) (<i>unaudited</i>)	December 31, 2007 (CA\$) (<i>unaudited</i>)
Net loss for the period	(4,513,255)	(2,338,932)
Other comprehensive income		
Unrealized gain on available-for-sale short-term investments	-	-
Comprehensive loss for the period	(4,513,255)	(2,338,932)

See accompanying notes to the unaudited interim consolidated financial statements

BioSyntech, Inc.

A development stage company

**INTERIM CONSOLIDATED STATEMENTS OF
OPERATIONS AND DEFICIT**

For the nine-month periods ended December 31, 2008 and 2007

	December 31, 2008 (CA\$) <i>(unaudited)</i>	December 31, 2007 (CA\$) <i>(unaudited)</i>
Revenues		
Sales and services	17,065	92,107
Research contracts	-	33,250
	17,065	125,357
Expenses		
Cost of sales and services	8,799	44,739
Research and development	4,631,213	4,404,126
Investment tax credits	(644,095)	(637,582)
General and administrative	2,243,719	2,766,658
Government grants	-	(10,000)
Interest on long-term debt and obligations under capital leases	205,009	287,987
Depreciation of property, plant and equipment	273,164	286,414
Amortization of patents and trademarks	45,772	37,146
Amortization of debt issue costs	44,169	55,108
Accretion of carrying value of subordinated secured convertible debentures and interest	1,819,255	-
Interest revenue	(120,834)	(279,309)
Loss (gain) on foreign exchange	22,835	(8,538)
Restructuring costs <i>(note 5)</i>	1,356,358	-
	9,885,364	6,946,749
Net loss for the period	(9,868,299)	(6,821,392)
Deficit accumulated during the development stage, beginning of period	(53,248,504)	(43,965,757)
Adjustment to reflect change in accounting policy on financial instruments	-	(45,539)
Deficit accumulated during the development stage, end of period	(63,116,803)	(50,832,688)
Weighted average number of common shares outstanding	95,821,687	95,487,015
Basic and diluted loss per share <i>(note 7)</i>	(0.10)	(0.07)

See accompanying notes to the unaudited consolidated financial statements

BioSyntech, Inc.

A development stage company

**INTERIM CONSOLIDATED STATEMENTS OF
COMPREHENSIVE LOSS**

For the nine-month periods ended December 31, 2008 and 2007

	December 31, 2008 (CA\$) (<i>unaudited</i>)	December 31, 2007 (CA\$) (<i>unaudited</i>)
Net loss for the period	(9,868,299)	(6,821,392)
Other comprehensive income		
Unrealized gain on available-for-sale short-term investments (<i>note 10</i>)	-	2,573
Comprehensive loss for the period	(9,868,299)	(6,818,819)

See accompanying notes to the unaudited consolidated financial statements

BioSyntech, Inc.
A development stage company

**INTERIM CONSOLIDATED STATEMENT OF
SHAREHOLDERS' EQUITY (DEFICIENCY)**

(Unaudited)

For the nine-month period ended December 31, 2008

	Share Capital		Warrants		Equity portion of subordinated secured convertible debentures		Contributed Surplus	Deficit	Total
	Number	Dollars	Number	Dollars	Number	Dollars	Dollars	Dollars	Dollars
Balance, March 31, 2008	95,487,015	49,880,635	25,600,000	-	-	-	5,640,053	(53,248,504)	2,272,184
Issuance of subordinated secured convertible debentures (note 4)	-	-	31,375,000	2,080,163	62,750,000	1,991,685	-	-	4,071,848
Subordinated secured convertible debentures issuance costs (note 4)	-	-	-	(198,379)	-	(189,940)	-	-	(388,319)
Conversion of subordinated secured convertible debentures (note 4)	600,000	90,563	-	-	(600,000)	(17,228)	-	-	73,335
Stock-based compensation	-	-	-	-	-	-	157,614	-	157,614
Net loss for the period	-	-	-	-	-	-	-	(9,868,299)	(9,868,299)
Balance, December 31, 2008	96,087,015	49,971,198	56,975,000	1,881,784	62,150,000	1,784,517	5,797,667	(63,116,803)	(3,681,637)

See accompanying notes to the unaudited consolidated financial statements

BioSyntech, Inc.
A development stage company

**INTERIM CONSOLIDATED STATEMENT OF
SHAREHOLDERS' EQUITY (DEFICIENCY)**

(Unaudited)

For the nine-month period ended December 31, 2007

	Share Capital		Warrants		Equity portion of subordinated secured convertible debentures		Contributed Surplus	Deficit	Total
	Number	Dollars	Number	Dollars	Number	Dollars	Dollars	Dollars	Dollars
Balance, March 31, 2007	95,487,015	49,880,635	25,682,437	-	-	-	5,280,988	(43,965,757)	11,195,866
Warrants expired	-	-	(82,437)	-	-	-	-	-	-
Stock-based compensation	-	-	-	-	-	-	311,797	-	311,797
Net loss for the period	-	-	-	-	-	-	-	(6,821,392)	(6,821,392)
Adjustment to reflect change in accounting policy on financial instruments	-	-	-	-	-	-	-	(45,539)	(45,539)
Balance, December 31, 2007	95,487,015	49,880,635	25,600,000	-	-	-	5,592,785	(50,832,688)	4,640,732

See accompanying notes to the unaudited consolidated financial statements

BioSyntech, Inc.

A development stage company

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three-month periods ended December 31, 2008 and 2007

	December 31, 2008 (CA\$) (unaudited)	December 31, 2007 (CA\$) (unaudited)
OPERATING ACTIVITIES		
Net loss for the period	(4,513,255)	(2,338,932)
Adjustments for:		
Depreciation of property, plant and equipment	84,332	93,652
Amortization of patents and trademarks	18,770	12,873
Amortization of debt issue costs	13,735	17,628
Options granted to directors, employees and consultants	87,699	35,913
Accretion of carrying value of subordinated secured convertible debentures and interest	1,029,436	-
Accrued interest on subordinated secured convertible debentures	(375,965)	-
Exchange (gain) loss	(6,666)	91
Change in operating assets and liabilities:		
Interest receivable	(2,241)	3,886
Accounts receivable	(46,949)	(26,449)
Inventories	(16,676)	(14,519)
Investment tax credits	(213,095)	518,000
Prepaid expenses	(33,692)	(25,510)
Deferred revenues	-	71,888
Accounts payable and accrued liabilities	1,177,710	39,956
Cash flows related to operating activities	(2,796, 857)	(1,611,523)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(27,770)	(20,327)
Disposal of short-term investments	-	2,500,000
Patents and trademarks	(20,661)	(24,236)
Cash flows related to investing activities	(48,431)	1,848,598
FINANCING ACTIVITIES		
Issuance of subordinated secured convertible debentures	-	-
Subordinated secured convertible debentures issue costs	-	-
Repayment of long-term debt	(158,298)	(158,298)
Repayment of obligations under capital leases	-	(2,494)
Cash flows related to financing activities	(158,298)	(160,792)
Effect of exchange rate changes on cash and cash equivalents	6,666	(91)
Net (decrease) increase in cash and cash equivalents	(2,996,920)	683,031
Cash and cash equivalents, beginning of period	9,290,769	2,238,268
Cash and cash equivalents, end of period	6,293,849	2,921,299
Additional information (note 9)		
Interest paid	66,407	100,087

See accompanying notes to the unaudited interim consolidated financial statements

BioSyntech, Inc.

A development stage company

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

For the nine-month periods ended December 31, 2008 and 2007

	December 31, 2008 (CA\$) <i>(unaudited)</i>	December 31, 2007 (CA\$) <i>(unaudited)</i>
OPERATING ACTIVITIES		
Net loss for the period	(9,868,299)	(6,821,392)
Adjustments for:		
Depreciation of property, plant and equipment	273,164	286,414
Amortization of patents and trademarks	45,772	37,146
Amortization of debt issue costs	44,169	55,108
Options granted to directors, employees and consultants	157,614	311,797
Accretion of carrying value of subordinated secured convertible debentures and interest	1,819,255	-
Accrued interest on subordinated secured convertible debentures	(689,220)	-
Exchange (gain) loss	(6,676)	859
Change in operating assets and liabilities:		
Interest receivable	(5,714)	(21,150)
Accounts receivable	(11,391)	35,952
Inventories	648	(21,050)
Investment tax credits	(644,095)	153,000
Prepaid expenses	80,583	40,111
Deferred revenues	-	67,454
Accounts payable and accrued liabilities	1,601,216	(73,098)
Cash flows related to operating activities	(7,202,974)	(5,948,849)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(227,154)	(40,155)
Disposal of short-term investments	-	5,385,750
Deposit, patents and trademarks	(41,159)	(67,849)
Cash flows related to investing activities	(268,313)	5,277,746
FINANCING ACTIVITIES		
Issuance of subordinated secured convertible debentures	12,550,000	-
Subordinated secured convertible debentures issue costs	(1,196,852)	-
Repayment of long-term debt	(430,494)	(419,394)
Repayment of obligations under capital leases	-	(11,059)
Debt issue costs	-	(16,515)
Cash flows related to financing activities	10,922,654	(446,968)
Effect of exchange rate changes on cash and cash equivalents	6,676	(859)
Net increase (decrease) in cash and cash equivalents	3,458,043	(1,118,930)
Cash and cash equivalents, beginning of period	2,835,806	4,040,229
Cash and cash equivalents, end of period	6,293,849	2,921,299
Additional information (note 9)		
Interest paid	206,057	284,391

See accompanying notes to the unaudited consolidated financial statements

BioSyntech, Inc.

A development stage company

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Periods ended December 31, 2008 and 2007

(in Canadian dollars)

1. ORGANIZATION AND OPERATIONS OF THE COMPANY

BioSyntech, Inc. (the "Company") was incorporated on December 14, 1994 under the laws of the State of Nevada. The Company was continued under the Canada Business Corporations Act on March 29, 2006.

The Company, a development stage company, has been engaged primarily in research and development since inception. BioSyntech is a medical device company specialized in the development, manufacturing and commercialization of advanced biotherapeutic thermogels for regenerative medicine (tissue repair) and therapeutic delivery. BioSyntech's platform technology is a family of hydrogels called BST-Gel[®], some of which are liquid at low temperature and solid at human body temperature. These gels can be injected or applied to a specific local site and offer beneficial properties for the local repair of damaged tissue such as cartilage, bone and chronic wounds and provide the benefit of avoiding invasive surgery. The Company's lead, late-stage product, BST-CarGel[®] is currently undergoing an international pivotal trial.

The Company has had limited revenues to date generated almost entirely by sales of instrumentation products and purified chitosan, called Ultrasan. BioSyntech has developed its main products using its technology platform. Substantially all research and development costs since inception, including patent protection costs, are mainly related to this technology platform.

In the course of its business, the Company is exposed to risks including those related to research and development of its technologies and marketing of related products or services, intellectual property protection, key personnel retention and the securing of financing required to achieve the objectives of its business plan.

2. BASIS OF PRESENTATION AND GOING CONCERN ASSUMPTION

These interim consolidated financial statements for the period ended December 31, 2008 have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles ("GAAP"). The going concern basis assumes that the Company will continue its operations for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The use of the going concern basis may not be appropriate because, as of December 31, 2008, there was substantial doubt that the Company will be able to continue as a going concern without securing additional financial resources.

The Company has no product from which it can generate significant revenue and has incurred losses each year since its inception, having accumulated a deficit of \$63,116,803 as at December, 31, 2008. Furthermore, deficiency in assets amount to \$3,681,637 and the Company has a negative working capital of \$4,325,836 at December 31, 2008. Also, the Company's anticipated level of annual expenditures exceeds the Company's cash and cash equivalents on hand as of December 31, 2008. In addition, the Company may have to repay the \$12,430,000 subordinated secured convertible debentures at maturity, which is December 2009 (note 4). To date, the Company has financed its cash requirements primarily through equity and debt issuances, investment tax credits and investment income. The success of the Company is dependent upon successful completion of the development of its products, obtaining the necessary regulatory approvals and commercialization of its products, which may be a few years away.

One of the Company's key milestone was completed on February 2, 2009, as the Company has completed enrolment for the Canadian-European pivotal trial of its cartilage repair device, BST-Cargel[®]. The Company achieved its planned objective of enrolling 80 patients into the randomized trial. The Company is also working to complete the Investigational Device Exemption ("IDE") application process with the U.S. Food and Drug Administration (the "FDA"), which will define the data requirements for the regulatory clearance of BST-Cargel[®] in the United States of America. Management believes that obtaining this clarity will enhance the attractiveness of the Company's product to potential partners and, as such, is an important near term milestone for the Company to achieve.

BioSyntech, Inc.

A development stage company

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Periods ended December 31, 2008 and 2007

(in Canadian dollars)

2. BASIS OF PRESENTATION AND GOING CONCERN ASSUMPTION (continued)

Management is currently exploring various strategic and financing alternatives; a restructuring is also under way, as outlined in note 5. If the Company is unable to obtain additional financing, it may be required to curtail its operations. There can be no assurance that such strategic and financing alternatives will materialize on a timely basis or be obtained of favourable terms.

These interim consolidated financial statements for the period ended December 31, 2008 do not reflect adjustments that would be necessary if the going concern basis was not appropriate. Consequently, adjustments would be necessary to the carrying value of assets and liabilities, the reported revenues and expenses and the balance sheet classifications used. Such adjustments could be material.

3. SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES

a) Significant accounting policies

These interim consolidated financial statements do not include all disclosures required under GAAP and accordingly should be read in conjunction with the audited consolidated financial statements for the year ended March 31, 2008. The accounting policies underlying these interim consolidated financial statements are those set forth in note 3 of the audited consolidated financial statements for the year ended March 31, 2008.

b) Adoption of new accounting standards

Effective April 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1535, *Capital Disclosures*, CICA Handbook Section 3862, *Financial Instruments – Disclosure*, and CICA Handbook Section 3863, *Financial Instruments - Presentation*. In addition, the Company adopted the amendments to CICA Handbook Section 1400 - *General Standards of Financial Statements Presentation*, which include the requirements to assess and disclose an entity’s ability to continue as a going concern.

These new standards relate to disclosure and presentation only and did not have an impact on the financial results of the Company (see notes 8 and 12).

c) Future accounting changes

Goodwill and intangible assets

In January 2008, the CICA issued Section 3064, *Goodwill and Intangible Assets*, which will replace Section 3062, *Goodwill and Other Intangible Assets*. The standard provides guidance on the recognition of intangible assets in accordance with the definition of an asset and the criteria for asset recognition as well as clarifying the application of the concept of matching revenues and expenses, whether these assets are separately acquired or internally developed. This standard will apply to the Company’s interim and annual financial statements beginning on April 1, 2009. The Company has not yet determined what the impact of adopting this standard will have on the consolidated financial statements.

International financial reporting standards (IFRS)

In 2005, the Accounting Standards Board of Canada (“AcSB”) announced that accounting standards in Canada are to converge with IFRS. In February 2008, the CICA confirmed the change over date from current Canadian GAAP to IFRS to be January 1, 2011. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policies which must be addressed. The Company has not yet assessed the future impact of these new standards on its consolidated financial statements.

BioSyntech, Inc.

A development stage company

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Periods ended December 31, 2008 and 2007

(in Canadian dollars)

4. SUBORDINATED SECURED CONVERTIBLE DEBENTURES

On July 15, 2008, the Company closed a bought deal financing of 11,000 subordinated secured convertible debentures units of the Company (a "Unit"), each comprised of \$1,000 principal amount of subordinated secured convertible debentures (the "Debentures") and 2,500 warrants, representing gross aggregate proceeds of \$11,000,000 to the Company. On July 18, 2008, the underwriters exercised part of an over-allotment option to purchase an additional 1,550 Units for gross proceeds of \$1,550,000. The \$12,550,000 subordinated secured convertible debentures are convertible into 62,750,000 common shares at the option of the holders. Each warrant entitles the holders to acquire one share at a price of \$0.22 per share for a period of 5 years after the date of closing.

The debentures mature on December 31, 2009 (the "Maturity Date"), and bear interest to an annual rate of 12.0% payable semi-annually, not in advance, on June 30 and December 31 of each year, provided that the first interest payment representing all accrued and unpaid interest up to December 31, 2008 shall be payable upon the earliest of:

- (i) The closing of an equity financing transaction at a price equal or greater than the conversion price of \$0.20 per common share, for gross proceeds to the Company of at least \$5,000,000;
- (ii) The closing of a partnership agreement in the United States of America or Europe for the product the Company named BST-CarGel®;
- (iii) March 31, 2009.

The debentures may be redeemed by the Company, upon certain conditions, at a redemption price equal to \$1,100 per Debenture plus accrued and unpaid interest. Subject to regulatory approval and to the consent of holders of Debentures representing 2/3 of the principal amount of Debentures outstanding, the Company may, at its option, repay the principal amount of the Debentures at maturity by issuing common shares listed on the TSX to the holders of Debentures. Subject to regulatory approval, the Company may, at its option, satisfy its obligation to pay interest on the Debentures by issuing common shares listed on the TSX to the holders of the Debentures. Each Debenture will be convertible into freely tradable common shares at the option of the holder of a Debenture at any time at a conversion price of \$0.20 per common share, subject to adjustment in certain events.

The offering was completed resulting in the issuance of a total of 12,550 units for gross proceeds of \$12,550,000 and net proceeds of \$11,353,148. The fair value of the Company's obligation to make principal and interest payments was estimated at \$8,478,152 and was recorded as subordinated secured convertible debentures. The fair value of the holder's conversion option and warrants were respectively estimated at \$1,991,685 and \$2,080,163 and were recorded as "equity portion of subordinated secured convertible debentures" and "warrants" respectively. The fair value of the holder's conversion option and warrants were determined using Black-Scholes option pricing model. The debt issue costs totalling \$1,196,852 related to the issuance of these units have been allocated pro-rata to subordinated secured convertible debentures of \$808,533, equity portion of subordinated secured convertible debentures of \$189,940 and warrants of \$198,379. The carrying value of the subordinated secured convertible debentures is accreted to its maturity value over its life through charges to income, using a notional semi-annual interest rate of 26.8%.

BioSyntech, Inc.

A development stage company

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Periods ended December 31, 2008 and 2007

(in Canadian dollars)

4. SUBORDINATED SECURED CONVERTIBLE DEBENTURES (continued)

The carrying value of the subordinated secured convertible debentures is detailed as follows as of December 31, 2008:

	CA\$
Fair value upon issuance, net of deferred financing costs	7,669,619
Plus: Accumulated accretion expense	1,819,255
Less: Accrued interest, included under accounts payable and accrued liabilities	(689,220)
Less: Portion of the carrying value attributable to units converted into common stock	(73,335)
Balance as at December 31, 2008	8,726,319

During the nine-month period, 120 units have been converted into 600,000 common shares.

5. RESTRUCTURING COSTS

As part of the streamlined business plan adopted by the Board of Director on June 23, 2008, the Company proceeded to rationalise and consolidate its workforce and executive Management. The restructuring costs are mainly comprised of severances dictated by contractual agreements and termination fees in accordance with Quebec common practice (\$1,334,878), but also include consultant expenses (\$21,480); the unpaid amount of the restructuring costs as at December 31, 2008 was \$908,480 and it was included under accounts payable and accrued liabilities.

6. RELATED PARTY TRANSACTIONS

The Company terminated a consulting services agreement with a shareholder and director in December 2008. These transactions have been recorded at exchange amounts, which are the consideration established and agreed to by the related parties. The Company recorded \$30,000 in general and administrative and \$187,000 in restructuring costs in the statement of operations. The unpaid balance as at December 31, 2008 was \$191,286, of which \$187,000 was related to the unpaid restructuring costs mentioned in note 5.

BioSyntech, Inc.

A development stage company

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Periods ended December 31, 2008 and 2007

(in Canadian dollars)

7. OPTIONS, WARRANTS AND LOSS PER SHARE**a) Stock option plan**

Changes in outstanding options granted under the Company's Stock Option Plan for the year ended March 31, 2008 and the nine-month period ended December 31, 2008 were as follows:

	Number	Weighted average exercise price
Options outstanding, March 31, 2007	5,920,000	\$0.74
Granted	1,892,500	\$0.48
Forfeited	(320,000)	\$0.46
Expired	(400,000)	\$0.62
Options outstanding, March 31, 2008	7,092,500	\$0.69
Granted	3,064,000	\$0.08
Forfeited	(545,000)	\$0.57
Expired	(1,930,000)	\$0.85
Options outstanding, December 31, 2008	7,681,500	\$0.46

b) Warrants and other options

Changes in the issued and outstanding warrants and other options pursuant to different financings were as follows:

Warrants and other options	Warrants Number	Weighted average exercise price	Other options Number	Weighted average exercise price
Outstanding, March 31, 2007	25,682,437	\$0.66	2,417,820	\$0.42
Expired	(82,437)	\$0.80	(1,190,500)	\$0.42
Outstanding, March 31, 2008	25,600,000	\$0.66	1,227,320	\$0.42
Expired	—	—	(1,227,320)	\$0.42
Issued (note 4)	31,375,000	\$0.22	—	—
Outstanding, December 31, 2008	56,975,000	\$0.42	—	—

Outstanding warrants at December 31, 2008 are as follows:

Number of warrants	Exercise price	Expiry
25,000,000	\$0.65	March 2009
300,000	\$1.25	November 2009
300,000	\$0.80	March 2012
31,375,000	\$0.22	July 2013
56,975,000		

BioSyntech, Inc.

A development stage company

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Periods ended December 31, 2008 and 2007

(in Canadian dollars)

7. OPTIONS, WARRANTS AND LOSS PER SHARE (continued)

c) Stock-based compensation

For the nine-month period ended December 31, 2008, the Company recorded total stock-based compensation of \$117,929 related to stock options granted to employees and directors after April 2002 (\$262,114 in 2007) and \$39,685 for stock options granted to consultants (\$49,683 in 2007).

The weighted average fair value per share for each option granted is estimated at the grant date using the Black-Scholes option-pricing model with the following assumptions for the periods ended December 31:

	2008 (in percentage)	2007 (in percentage)
Expected life (in years)	5.00	5.00
Risk-free interest rate	2.31	4.30
Volatility	87.18	71.73
Expected dividend yield	Nil	Nil

Dividend yield was excluded from the calculation, since it is present policy of the Company to retain all earnings to finance operations.

The following table summarizes the weighted average grant-date fair value per share for options granted during the nine-month periods ended December 31, 2008 and 2007:

	Number of options	Weighted average grant-date fair value
December 31, 2008	3,064,000	\$0.08
December 31, 2007	1,862,500	\$0.30

d) Loss per share

The diluted loss per share was not presented, as the effect of options, warrants, other options and conversion of subordinated secured convertible debentures would have been anti-dilutive.

8. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its pharmaceutical products and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

BioSyntech, Inc.

A development stage company

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Periods ended December 31, 2008 and 2007

(in Canadian dollars)

8. MANAGEMENT OF CAPITAL (continued)

In the definition of capital, the Company includes the components of shareholders' equity as well as long-term debt, including current portion, and the subordinated secured convertible debentures.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents and short-term investments.

Considering the recent financial market conditions and the increasing difficulties for companies to obtain financing, the Company is reviewing its overall capital management strategy, in order to ensure that the Company has enough cash and cash equivalents to finance its operations and capital needs. Accordingly, Management is exploring various strategic options to ensure the advancement of its product pipeline and its ability to continue operating. Management does not expect that its capital will be sufficient to carry its research and development plans and operations for the next twelve months and, therefore, a going concern uncertainty was added in note 2.

In order to maximize ongoing development efforts, the Company does not pay out dividends.

The Company's investment policy is to invest its cash in high-grade investment securities with varying terms to maturity, selected with regards to the expected timing of expenditures from continuing operations.

The Company is not subject to any externally imposed capital requirements.

9. STATEMENTS OF CASH FLOWS

Non-cash information

a) Non-cash financing and investing activities included in accounts payable are as follows:

	December 31, 2008 (CA\$)	March 31, 2008 (CA\$)
Patents and trademarks	29,289	10,336
Property, plant and equipment	5,482	3,754

b) Non-cash financing activities included in shareholders' equity are as follows:

	December 31, 2008 (CA\$)	March 31, 2008 (CA\$)
Value of warrants issued	2,080,163	-
Equity portion of subordinated secured convertible debentures	1,991,685	-
Partial conversion of subordinated secured convertible debentures	(17,228)	-
Subordinated secured convertible debentures issuance costs recorded against the warrants and the equity portion of the subordinated secured convertible debentures	(388,319)	-

BioSyntech, Inc.

A development stage company

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Periods ended December 31, 2008 and 2007

(in Canadian dollars)

10. ACCUMULATED OTHER COMPREHENSIVE LOSS

	2008 CA\$	2007 CA\$
Balance, March 31	-	-
Impact of adopting the new accounting policy regarding financial instruments – unrealized loss on short-term investments	-	(2,573)
Unrealized gain on short-term investments for the period	-	2,573
Balance as at December 31	-	-

11. FINANCIAL INSTRUMENTS

The Company has determined that the carrying values of its short-term financial assets and liabilities, including cash and cash equivalents, accounts receivables, sales tax receivable and other and accounts payable and accrued liabilities, approximates their fair value because of the relatively short periods to maturity of these instruments. The carrying amount of the Company's floating-rate long-term debt approximates its fair value as it bears interest at current commercial floating rates. The carrying amount of the debt component of the subordinated secured convertible debentures approximate its fair value, considering that the debentures were issued in mid-July and they mature on December 31, 2009. Management believes that no significant change occurred in the risk of that instrument.

12. FINANCIAL RISK MANAGEMENT

The Company is exposed to certain financial risks, including currency risk, credit risk, liquidity risk and interest risk.

Currency risk

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates internationally and portions of its expenses are incurred in US dollars and Euros. A significant change in the currency exchange rates between the Canadian dollar relative to the US dollar or the Euro could have an effect on the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations.

As of December 31, 2008, the Company is exposed to currency risk through its cash and cash equivalents, account receivable and accounts payable and accrued liabilities denominated in US dollars and Euros as follows:

	December 31, 2008		March 31, 2008	
	US Dollar	Euros	US Dollar	Euros
Cash and cash equivalents	86,095	85	3,902	633
Accounts receivable	-	2,901	39,655	-
Accounts payable and accrued liabilities	94,576	3,598	83,141	46,322

Based on the above net exposure as of December 31, 2008, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the US dollar would result in an increase/decrease of \$1,034 in the Company's net loss and a 10% depreciation or appreciation of the Canadian dollar against the Euro would result in an increase/decrease of \$79 in the Company's net loss.

BioSyntech, Inc.

A development stage company

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Periods ended December 31, 2008 and 2007

(in Canadian dollars)

12. FINANCIAL RISK MANAGEMENT (continued)

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company regularly monitors its credit risk exposure and takes appropriate steps to mitigate the chance of incurring losses. As at December 31, 2008, there were no financial instruments which might expose the Company to significant credit risk concentrations. Cash and cash equivalents are held by Canadian financial institutions.

The Company's receivables consist of accounts receivable and sales tax receivable. Accounts receivable as of December 31, 2008 are all current and the customers have a collection history with the Company.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage as outlined in note 8. The Company's anticipated level of annual expenditures exceeds the Company's cash and cash equivalents on hand as of December 31, 2008. Therefore, a going concern uncertainty note was added in note 2.

Accounts payable and accrued liabilities are all due within the current operating period; the subordinated secured convertible debentures are due on December 31, 2009.

The following table sets our contractual obligations by calendar years as of December 31, 2008:

	Total \$	2009 \$	2010 \$	2011 \$	2012 \$	2013 \$	2014+ \$
Subordinated secured convertible debentures	12,430,000	12,430,000	-	-	-	-	-
Interest on subordinated secured convertible debentures (i)	2,180,821	2,180,821	-	-	-	-	-
Long-term debt	2,889,024	633,192	633,232	133,200	133,200	133,200	1,223,000
Interest on long-term debt	1,050,072	186,405	141,749	113,207	103,841	93,893	410,977
Clinical trial agreements	476,186	300,108	176,077	-	-	-	-
Collaboration research agreement	550,000	200,000	200,000	150,000	-	-	-
Operating leases	11,290	9,258	2,032	-	-	-	-

(i) The Company may satisfy its obligation to pay interest by issuing common shares.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company is exposed to interest rate risk with respect to its debt with Investissement Québec and BDC, which bears interest at a floating rate.

Based on the above net exposure as of December 31, 2008, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the interest rate would result in an increase/decrease of \$19,827 in the Company's net loss for the nine-month period.