ONCOLYTICS BIOTECH INC
Form SUPPL
December 01, 2008

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Filed pursuant to General Instruction II.L of Form F-10;
File No. 333-151513

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

This prospectus supplement, together with the short form base shelf prospectus dated June 16, 2008 to which it relates, as amended or supplemented, and each document deemed to be incorporated by reference into the short form base shelf prospectus, constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities.

These securities will not be not be offered or sold within the United States or to U.S. Persons (as such term is defined in Regulation S under the United States Securities Act of 1933, as amended). See Plan of Distribution .

Information has been incorporated by reference in this prospectus supplement and the accompanying short form base shelf prospectus from documents filed with securities commissions or similar authorities in Canada. *Copies of the documents incorporated by reference in this prospectus supplement and the short form base shelf prospectus may be obtained on request without charge from the Corporate Secretary of Oncolytics Biotech Inc. at 210, 1167 Kensington Crescent N.W., Calgary, Alberta, T2N 1X7, telephone (403) 670-7377, and are also available electronically at www.sedar.com. See Documents Incorporated by Reference .*

Prospectus Supplement
(To a Short Form Base Shelf Prospectus Dated June 16, 2008)

New Issue **December 1, 2008**

Up to $3,750,000
Up to 2,500,000 Units

We are hereby qualifying for distribution (the **Offering**) up to 2,500,000 units (the **Units**) at a price of $1.50 per Unit, each Unit consisting of one common share (the **Common Shares**) and one common share purchase warrant (the **Warrants**). Each Warrant will entitle the holder to purchase one additional Common Share upon payment of $1.80, subject to adjustment, at any time until 4:30 p.m. (Calgary time) on the date that is 36 months following the closing of the Offering. If on any date (the **Accelerated Exercise Date**) the 10 day volume weighted average trading price of the Common Shares on the Toronto Stock Exchange (**TSX**) exceeds $2.50 per share, then, at our sole discretion, and upon us sending the holders of Warrants written notice of such Accelerated Exercise Date and issuing a news release announcing such Accelerated Exercise Date, the Warrants shall only be exercisable for a period of 30 days following the later of the date on which such written notice is sent to holders of Warrants and the date on which such announcement is made by news release. See Details of the Offering and Plan of Distribution .

	Price to Public	Underwriter s Fee[1][2]	Net Proceeds to the Corporation[3][4]

Per Unit	$ 1.50	$ 0.12	$ 1.38
Total Offering[5]	$ 3,750,000	$ 300,000	$ 3,450,000

Notes:

(1) The Underwriter s fee represents 8% of the offering price to the public.

(2) The Underwriter is also entitled to be issued up to 287,500 broker warrants (the **Broker Warrants**), exercisable, in whole or part, within three years of the initial closing date of the Offering (subject to acceleration in certain circumstances), into Common Shares at an exercise price of $1.80. The number of Broker Warrants issued to the Underwriter will be equal to 10% of the number of Common Shares issued pursuant to the Offering (including the Over-Allotment Option). This prospectus supplement also qualifies the distribution of the Broker Warrants. Please see Plan of Distribution .

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(3) Before deducting the expenses associated with the Offering, estimated to be $170,000. The Underwriter s fee and the expenses associated with the Offering will be paid from the proceeds of the Offering.

(4) The Underwriter has been granted an option (the **Over-Allotment Option**), to purchase up to 375,000 additional Units at a price of $1.50 per Unit to cover over-allotments. The Over-Allotment Option must be exercised, in whole or in part, by the Underwriter by providing written notice to us of the exercise thereof by 3:00 p.m. (Calgary time) on the business day prior to the Closing Date (as defined herein). This prospectus supplement qualifies both the grant of the Over-Allotment Option and the issuance of the Units upon exercise of the Over-Allotment Option. If the Over-Allotment Option is fully exercised, the total Offering, Underwriter s fee and net proceeds to the Corporation, before expenses, will be $4,312,500, $345,000 and $3,967,500, respectively. A purchaser who acquires Units forming part of the Over-Allotment Option, if applicable, acquires those Units under this prospectus supplement, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

(5) Assumes that all of the 2,500,000 Units are sold. The Offering is not subject to a minimum subscription level.

Underwriter s Position	**Maximum Size**	**Exercise Period**	**Exercise/Conversion Price**
Over-Allotment Option	375,000 Units	Exercisable not later than 3:00 p.m. on the business day prior to the Closing Date	$1.50 per Unit
Broker Warrants	287,500 Broker Warrants	Exercisable within three years from the Closing Date, subject to acceleration of the expiry date in certain circumstances	$1.80 per Broker Warrant

Our outstanding Common Shares are listed for trading on the TSX under the trading symbol ONC and on the NASDAQ Capital Market (**NASDAQ**) under the trading symbol ONCY . On November 28, 2008, the closing price of our Common Shares on the TSX was $1.44 and on NASDAQ was U.S.$1.17. The offering price of our Units was determined by negotiation between us and Bolder Investment Partners, Ltd. (the **Underwriter**). **There is no market through which the Warrants may be sold and purchasers may not be able to resell the Warrants purchased under this prospectus supplement. This may affect the pricing of the Warrants in the secondary market, the transparency and availability of trading prices, the liquidity of such Warrants, and the extent of issuer regulation. See Risk Factors .**

The Underwriter, conditionally offers the Units, subject to prior sale, if, as and when issued and delivered by us to, and accepted by, the Underwriter in accordance with the conditions contained in the Underwriting Agreement referred to under Plan of Distribution , and subject to the approval of certain legal matters on behalf of the Corporation by Bennett Jones LLP and on behalf of the Underwriter by Fraser Milner Casgrain LLP. **The Underwriter has no obligation whatsoever to take-up and pay for, in whole or in part, a minimum number of Units offered under this prospectus supplement. The Offering is not subject to a minimum amount of proceeds.** Subscriptions will be received subject to rejection or allotment in whole or in part and the Underwriter reserves the right to close the subscription books at any time without notice. It is currently anticipated that the closing date of the Offering (the

Closing Date) will be on or about December 5, 2008, or such later date as we and the Underwriter may agree but in any event not later than December 31, 2008. See Details of the Offering and Plan of Distribution .

It is anticipated that certificates for the Common Shares forming part of the Units will be issued in book-entry only form to CDS Clearing and Depository Services Inc. (**CDS**) or its nominee and will be deposited with CDS on the date of closing of the Offering. No certificates evidencing Common Shares will be issued to subscribers, except in certain limited circumstances, and registration will be made in the depository services of CDS. Subscribers for Units will receive only a customer confirmation from the Underwriter or other registered dealer who is a CDS participant and from or through whom a beneficial interest in the Common Shares is purchased. Certificates for the Warrants forming part of the Units may be issued in book-entry only form to CDS or its nominee or in fully registered form.

In connection with the Offering, the Underwriter may, subject to applicable laws, over-allot Units or effect transactions that stabilize or maintain the market price of our Common Shares at a level other than that which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time. See Plan of Distribution .

Investing in the Common Shares involves risks that are described in the Risk Factors section beginning on page S-14 of this prospectus supplement and page 4 of the accompanying short form base shelf prospectus.

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This prospectus supplement registers the offering of the securities to which it relates under the United States Securities Act of 1933, as amended (the **U.S. Securities Act**), in accordance with the multi-jurisdictional disclosure system adopted by the U.S. Securities and Exchange Commission (the **SEC**). This prospectus supplement also qualifies the distribution of the Units in the provinces of British Columbia, Alberta, Manitoba and Ontario.

NEITHER THE SEC NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS SUPPLEMENT OR THE ACCOMPANYING SHORT FORM BASE SHELF PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

We are permitted, under a multi-jurisdictional disclosure system adopted by the United States, to prepare this prospectus supplement and the accompanying short form base shelf prospectus in accordance with Canadian disclosure requirements. You should be aware that such requirements are different from those of the United States. We have prepared our financial statements included or incorporated herein by reference in accordance with Canadian generally accepted accounting principles, and they are subject to Canadian auditing and auditor independence standards. Thus, they may not be comparable to the financial statements of United States companies. Information regarding the impact upon our financial statements of significant differences between Canadian and United States generally accepted accounting principles is contained in the notes to our audited financial statements and in our Current Report on Form 6-K dated November 28, 2008, both of which are incorporated by reference in this prospectus supplement and the accompanying short form base shelf prospectus.

You should be aware that the purchase of Units may have tax consequences in Canada. This prospectus supplement and the accompanying short form base shelf prospectus may not describe these tax consequences fully. You should read the tax discussion in this prospectus supplement and the accompanying short form base shelf prospectus. See Canadian Federal Income Tax Considerations in this prospectus supplement and the accompanying short form base shelf prospectus.

Your ability to enforce civil liabilities under United States federal securities laws may be affected adversely by the fact that we are incorporated under the laws of Canada, the majority of our officers and directors and some of the experts named in this prospectus supplement and the accompanying short form base shelf prospectus are residents of Canada, and a substantial portion of our assets and the assets of such persons are located outside the United States.

You should rely only on the information contained in or incorporated by reference in this prospectus supplement and the accompanying short form base shelf prospectus. If the description of the Units or their constituent parts varies between this prospectus supplement and the accompanying short form base shelf prospectus, you should rely on the information in this prospectus supplement. We have not authorized anyone to provide you with different or additional information. We are not making an offer of the Units in any jurisdiction where the offer is not permitted by law. If anyone provides you with any different or inconsistent information, you should not rely on it. You should not assume that the information contained in or incorporated by reference in this prospectus supplement or the accompanying short form base shelf prospectus is accurate as of any date other than the date on the front of this prospectus supplement.

Our head office and principal place of business is located at 210, 1167 Kensington Crescent N.W., Calgary, Alberta, T2N 1X7. Our registered office is located at 4500 Bankers Hall East, 855 2nd Street S.W., Calgary, Alberta, T2P 4K7.

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IMPORTANT NOTICE ABOUT THE INFORMATION IN THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of the Units being offered and also adds to and updates information contained in the accompanying short form base shelf prospectus. The second part, the accompanying short form base shelf prospectus, gives more general information, some of which may not apply to the Units being offered under this prospectus supplement.

You should rely only on the information contained in or incorporated by reference in this prospectus supplement and the accompanying short form base shelf prospectus. If the description of the Units or their constituent parts varies between this prospectus supplement and the accompanying short form base shelf prospectus, you should rely on the information in this prospectus supplement. We have not authorized anyone to provide you with different or additional information. We are not making an offer of the Units in any jurisdiction where the offer is not permitted by law. If anyone provides you with any different or inconsistent information, you should not rely on it. You should not assume that the information contained in or incorporated by reference in this prospectus supplement or the accompanying short form base shelf prospectus is accurate as of any date other than the date on the front of this prospectus supplement.

DEFINITIONS AND OTHER MATTERS

In this prospectus supplement and in the accompanying short form base shelf prospectus, unless otherwise indicated, references to we , us , our , Oncolytics or the Corporation are to Oncolytics Biotech Inc. and/or its subsidiary corporations, as applicable. All references to dollars , Cdn.$ or $ are to Canadian dollars and all references to U.S.$ to United States dollars.

This prospectus supplement is part of a registration statement on Form F-10 relating to the Units that we filed with the SEC. This prospectus supplement does not contain all of the information contained in the registration statement, certain parts of which are omitted in accordance with the rules and regulations of the SEC. You should refer to the registration statement and the exhibits to the registration statement for further information with respect to us and the Units.

We prepare our financial statements in accordance with Canadian generally accepted accounting principles (**Canadian GAAP**), which differ from United States generally accepted accounting principles (**U.S. GAAP**).

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Therefore, our financial statements incorporated by reference in this prospectus supplement and in the accompanying short form base shelf prospectus and in the documents incorporated by reference in this prospectus supplement and in the accompanying short form base shelf prospectus may not be comparable to financial statements prepared in accordance with U.S. GAAP. You should refer to Note 21 of our financial statements for the year ended December 31, 2007 for a discussion of the principal differences between our financial results determined under Canadian GAAP and under U.S. GAAP. For our financial statements as at and for the three and nine months ended September 30, 2008, you should refer to our reconciliation of our financial statements as at and for the three and nine months ended September 30, 2008 to U.S. GAAP furnished to the SEC on the Corporation s Current Report on Form 6-K dated November 28, 2008 and incorporated into this prospectus supplement by reference. See Documents Incorporated by Reference .

This prospectus supplement is deemed to be incorporated by reference into the accompanying short form base shelf prospectus solely for the purposes of the Offering of the Units. Other documents are also incorporated or deemed to be incorporated by reference into this prospectus supplement and into the accompanying short form base shelf prospectus. See Documents Incorporated by Reference in this prospectus supplement.

SPECIAL NOTICE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements that we make contain forward-looking statements reflecting our current beliefs, plans, estimates and expectations. Readers are cautioned that these forward-looking statements involve risks and uncertainties, including, without limitation, clinical trial study delays, product development delays, our ability to attract and retain business partners, future levels of government funding, competition from other biotechnology companies and our ability to obtain the capital required for research, product development, operations and marketing. These factors should be carefully considered and readers should not place undue reliance on our forward-looking statements. Actual events may differ materially from our current expectations due to risks and uncertainties.

Our statements of belief , estimates , expectations and other similar statements are based primarily upon our results derived to date from our research and development program with animals and early stage human results and upon which we believe we have a reasonable scientific basis to expect the particular results to occur. It is not possible to predict, based upon studies in animals or early stage human results, whether a new therapeutic will be proved to be safe and effective in humans. There can be no assurance that the particular result expected by us will occur. Except as required by applicable securities laws, we undertake no obligation to update publicly any forward-looking statements for any reason after the date of this prospectus supplement or to conform these statements to actual results or to changes in our expectations.

ELIGIBILITY FOR INVESTMENT

In the opinion of Bennett Jones LLP, counsel to the Corporation, and Fraser Milner Casgrain LLP, counsel to the Underwriter (collectively, **Counsel**), the Common Shares offered hereby will, at the date hereof, be qualified investments under the *Income Tax Act* (Canada) (the **Tax Act**) and the regulations thereunder as in effect on the date hereof for trusts governed by registered retirement savings plans, registered retirement income funds, registered education savings plans, registered disability savings plans and deferred profit sharing plans (the **Exempt Plans**). In the opinion of Counsel, provided that we deal at arm s length (within the meaning of the Tax Act) with each person who is an annuitant, a beneficiary, an employer or a subscriber under, or in relation to, an Exempt Plan, as the case may be, the Warrants offered hereby will, at the date hereof, be qualified investments under the Tax Act and the regulations thereunder as in effect on the date hereof for Exempt Plans.

DOCUMENTS INCORPORATED BY REFERENCE

This prospectus supplement is deemed to be incorporated by reference into the accompanying base shelf prospectus solely for the purposes of the Offering, including with respect to the Over-Allotment Option.

Other information has also been incorporated by reference in the accompanying base shelf prospectus from documents filed with securities commissions or similar authorities in certain of the provinces of Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from our Corporate Secretary at 210, 1167 Kensington Crescent N.W., Calgary, Alberta, T2N 1X7 telephone (403) 670-7377, and are available electronically at www.sedar.com.

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We have filed the following documents with the securities commissions or similar regulatory authorities in certain of the provinces of Canada and such documents are specifically incorporated by reference in and form an integral part of the accompanying base shelf prospectus and this prospectus supplement:

- our Renewal Annual Information Form dated March 5, 2008, for the year ended December 31, 2007 (the **AIF**);
- our Management Proxy Circular dated March 23, 2007 relating to the annual and special meeting of shareholders held on May 2, 2007;
- our Management Proxy Circular dated March 20, 2008 relating to the annual and special meeting of shareholders held on May 7, 2008;
- our audited financial statements, together with the notes thereto, as at and for the years ended December 31, 2007 and 2006 and the auditors report thereon addressed to our shareholders;
- our management s discussion and analysis of financial condition and results of operations dated March 5, 2008, for the year ended December 31, 2007;
- our unaudited interim consolidated financial statements, together with the notes thereto, as at and for the three and nine months ended September 30, 2008;
- our management s discussion and analysis of financial condition and results of operations dated November 4, 2008, for the three and nine months ended September 30, 2008; and
- the reconciliation of our unaudited interim consolidated financial statements as at and for the three and nine months ended September 30, 2008 to U.S. GAAP, filed on November 28, 2008 under the heading Other .

Any documents of the type required by Section 11.1 of Form 44-101F1 *Short Form Prospectus* promulgated under National Instrument 44-101 *Short Form Prospectus Distributions* of the Canadian Securities Administrators to be incorporated by reference in a short form prospectus, including, without limitation, any annual information form, comparative annual financial statements and the auditors report thereon, comparative interim financial statements, management s discussion and analysis of financial condition and results of operations, material change report (except a confidential material change report), business acquisition report and information circular, if filed by us with the securities commissions or similar authorities in the provinces of Canada after the date of this prospectus supplement and prior to the termination of the distribution of the Units under this prospectus supplement shall be deemed to be incorporated by reference in the accompanying base shelf prospectus for the purposes of this Offering.

Any report filed by us with the SEC pursuant to section 13(a), 13(c), 14 or 15(d) of the United States Securities Exchange Act of 1934, as amended, after the date of this prospectus supplement shall be deemed to be incorporated by reference into the registration statement of which this prospectus supplement forms a part, if and to the extent expressly provided in such report.

Any statement contained in the accompanying base shelf prospectus, in this prospectus supplement or in a document incorporated or deemed to be incorporated by reference in the accompanying base shelf prospectus will be deemed to be modified or superseded for purposes of this prospectus supplement to the extent that a statement contained in this prospectus supplement or in any other subsequently filed document which also is, or is deemed to be, incorporated by reference into the accompanying base shelf prospectus modifies or supersedes that statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or

supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute part of this prospectus supplement or the accompanying base shelf prospectus.

Upon a new annual information form and related audited annual financial statements and management s discussion and analysis being filed by us with, and where required, accepted by, the securities commission or similar regulatory authority in each of the provinces of British Columbia, Alberta, Manitoba and Ontario during the term of this prospectus supplement, the previous annual information form, the previous audited annual financial statements and related management s discussion and analysis, all unaudited interim financial statements and related management s discussion and analysis, material change reports and business acquisition reports filed prior to the commencement of our financial

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year in which the new annual information form and related audited annual financial statements and management s discussion and analysis are filed shall be deemed no longer to be incorporated into the accompanying base shelf prospectus for purposes of future offers and sales of Units under this prospectus supplement. Upon new interim financial statements and related management s discussion and analysis being filed by us with the securities commission or similar regulatory authority in each of the provinces of British Columbia, Alberta, Manitoba and Ontario during the term of this prospectus supplement, all interim financial statements and related management s discussion and analysis filed prior to the new interim consolidated financial statements and related management s discussion and analysis shall be deemed no longer to be incorporated into the accompanying base shelf prospectus for purposes of future offers and sales of Units under this prospectus supplement. Upon a new information circular relating to an annual meeting of holders of Common Shares being filed by us with the securities commission or similar regulatory authority in each of the provinces of British Columbia, Alberta, Manitoba and Ontario during the term of this prospectus supplement, the information circular for the preceding annual meeting of holders of Common Shares shall be deemed no longer to be incorporated into the accompanying base shelf prospectus for purposes of future offers and sales of Units under this prospectus supplement.

DOCUMENTS FILED AS PART OF THE REGISTRATION STATEMENT

The following documents have been filed with the SEC as part of the registration statement on Form F-10 (File No. 333-151513) of which this prospectus supplement forms a part: the documents referred to under Documents Incorporated by Reference , consent of Ernst & Young LLP, consent of Bennett Jones LLP, and powers of attorney from our directors and officers.

The form of Warrant Indenture (as defined herein) and form of Underwriting Agreement has been or will be filed with the SEC as part of the registration statement on Form F-10 (File No. 333-151513).

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ONCOLYTICS BIOTECH INC.

Oncolytics Biotech Inc. was incorporated pursuant to the provisions of the *Business Corporations Act* (Alberta) on April 2, 1998 as 779738 Alberta Ltd. On April 8, 1998, we amended our articles and changed our name to Oncolytics Biotech Inc. On July 29, 1999, we further amended our articles by removing the private company restrictions and subdividing our 2,222,222 Common Shares issued and outstanding into 6,750,000 Common Shares. On February 9, 2007, we further amended our articles to permit for our shareholder meetings to be held at any place in Alberta or at any other location as determined by our directors.

Our head office and principal place of business is located at 210, 1167 Kensington Crescent N.W., Calgary, Alberta T2N 1X7. Our registered office is located at 4500 Bankers Hall East, 855 2nd Street S.W., Calgary, Alberta T2P 4K7.

We have one direct wholly-owned subsidiary, Oncolytics Biotech (Barbados) Inc. (**Oncolytics Barbados**), which is incorporated pursuant to the laws of Barbados and one indirect wholly-owned subsidiary, Oncolytics Biotech (U.S.), Inc., which is incorporated pursuant to the laws of Delaware.

OUR BUSINESS

We focus on the discovery and development of oncolytic viruses for the treatment of cancers that have not been successfully treated with conventional therapeutics. Recent scientific advances in oncology, virology, and molecular biology have created opportunities for new approaches to the treatment of cancer. The product we are presently developing may represent a novel treatment for Ras-mediated cancers which can be used as an alternative to existing cytotoxic or cytostatic therapies or as an adjuvant therapy to conventional chemotherapy, radiation therapy, or surgical resections. It could also potentially be used to treat certain cellular proliferative disorders for which no current therapy exists.

Our technologies are based primarily on discoveries in the Department of Microbiology and Infectious Diseases at the University of Calgary in the 1990 s. Oncolytics was formed in 1998 to explore the natural oncolytic capability of the reovirus, a virus that preferentially replicates in cells with an activated Ras pathway.

The lead product being developed by us may represent a novel treatment for certain tumour types and some cellular proliferative disorders. Our lead product is a virus that is able to replicate specifically in, and hence kill, certain tumour cells both in tissue culture as well as in a number of animal models without damaging normal cells.

Our potential product for human use, REOLYSIN®, is developed from the reovirus. This virus has been demonstrated to replicate specifically in tumour cells bearing an activated Ras pathway. Activating mutations of Ras occur in approximately thirty per cent of all human tumours directly, but considering its central role in signal transduction, activation of the Ras pathway has been shown to play a role in approximately two-thirds of all tumours.

The functionality of REOLYSIN® is based upon the finding that tumours bearing an activated Ras pathway are deficient in their ability to activate the anti-viral response mediated by the host cellular protein, Protein Kinase R (**PKR**). Since PKR is responsible for preventing reovirus replication, tumour cells lacking the activity of PKR are susceptible to reovirus infections. As normal cells do not possess Ras activations, these cells are able to thwart reovirus infections by the activity of PKR. In a tumour cell with an activated Ras pathway, reovirus is able to freely replicate and hence kill the host tumour cell. The result of this replication is progeny viruses that are then free to infect surrounding cancer cells. This cycle of infection, replication and cell death is believed to be repeated until there are no longer any tumour cells carrying an activated Ras pathway available.

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The following schematic illustrates the molecular basis of how the reovirus kills cancer cells.

For both non-cancer cells and cancer cells with an activated Ras pathway, virus binding, entry, and production of viral genes all proceed normally. In the case of normal cells however, the viral genes cause the activation of the anti-viral response that is mediated by the host cell s PKR, thus blocking the replication of the reovirus. In cells with an activated Ras pathway, the activation of PKR is prevented or reversed by an element of the Ras signal transduction pathway, thereby allowing the replication of the reovirus in these cancer cells. The end result of this replication is the death of the cancer cell. The action of the Ras pathway in allowing reovirus replication to ensue can be mimicked in non-cancerous cells by treating these cells with the chemical 2-aminopurine (2-AP) which prevents the activation of PKR.

RECENT DEVELOPMENTS

On July 1, 2008, we completed an internal reorganization to provide additional international flexibility and promote broadened opportunities for the Corporation. Pursuant to the internal reorganization we transferred certain assets to our wholly-owned subsidiary, Oncolytics Barbados, in consideration for additional shares in the capital of Oncolytics Barbados. The transferred assets consisted of: (a) the rights to certain regulatory submissions; (b) certain non-Canadian patents and patent applications; and (c) certain agreements to which we were a party, including, clinical research management agreements, clinical trial agreements, research agreements and manufacturing agreements. We also granted Oncolytics Barbados permission to use certain other intellectual property rights not transferred by us to Oncolytics Barbados. Concurrently with the asset transfer, the Corporation and Oncolytics Barbados entered into a trust agreement pursuant to which we agreed to hold legal title to the transferred assets with beneficial title remaining with Oncolytics Barbados.

As part of the internal reorganization, the Corporation and Oncolytics Barbados also entered into a research and development agreement on July 1, 2008 pursuant to which we agreed to provide certain services to Oncolytics Barbados, including: conducting research and development related to the transferred assets; coordinating clinical trials and the handling of data generated by such trials; pursuing regulatory approvals as required; coordinating the filing, prosecution and maintenance of patent applications and patents; and coordinating the development and implementation of manufacturing processes.

On October 7, 2008, we announced the issuance of our 29th U.S. patent, No. 7,431,931, entitled Reovirus Clearance of Ras-Mediated Neoplastic Cells from Mixed Cellular Compositions. The allowed claims cover methods of selectively removing cancer cells ex vivo from blood stem cells and other organs using reovirus.

On November 6, 2008, we announced interim results of our U.S. REOLYSIN® Phase II clinical trial in patients with bone and soft tissue sarcomas metastatic to the lung. The results were delivered by Dr. Monica Mita of the Institute of Drug Development, the Cancer Therapy and Research Center at the University of Texas Health Science Center, San Antonio, Texas, at the Chemotherapy Foundation Symposium XXVI, held in New York from November 4-8, 2008.

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At the time of the presentation, 35 patients had been enrolled in the study, and 29 were evaluable. 21% (6/29) of the evaluable patients experienced stable disease (SD) for more than 16 weeks. The investigators concluded that the study has met its established objectives, and that enrolment will continue to the full 52 patients.

Tumour Type	Cycles	Best Response
Synovial sarcoma	17*	SD
Ewing s sarcoma	9*	SD
Malignant Fibrous Histiocytoma	7*	SD, tumor resection after cycle 4

Tumour Type	Cycles	Best Response
Leiomyosarcoma	6	SD
Chordoma	5*	SD
Unspecified Spindle Cell	5*	SD

* patients still on study

An oral presentation covering results of the trial (REO 014) was also delivered at the Connective Tissue Oncology Society (CTOS) annual meeting, held in London, U.K. from November 13-15, 2008.

On November 14, 2008, Dr. Anders Kolb of the Nemours Center for Childhood Cancer Research delivered a poster entitled *Systemic Administration of REOLYSIN Inhibits Growth of Human Sarcoma Xenografts Alone and in Combination with Cisplatin and Radiation* at the CTOS meeting.

In the study, mice were engrafted with a variety of sarcoma cell lines including rhabdomyosarcoma, Ewing s sarcoma, synovial sarcoma and osteosarcoma, then treated with REOLYSIN® or REOLYSIN® in combination with either cisplatin or radiation. The researchers concluded that in all tumour lines evaluated, REOLYSIN® exhibits significant antitumour activity, including a complete response in a rhabdomyosarcoma line. The combination of REOLYSIN® and radiation is effective in inhibiting the growth of rhabdomyosarcoma and Ewing s sarcoma xenografts, and the combination of REOLYSIN® and cisplatin is effective in Ewing s sarcoma, osteosarcoma and synovial sarcoma xenografts.

On November 18, 2008, we announced the issuance of our 30th U.S. patent, No. 7,452,723, entitled Methods for Preventing Reovirus Recognition for the Treatment of Cellular Proliferative Disorders. The allowed claims relate to kits comprised of reovirus and an immune suppressive agent that are designed to prevent reovirus recognition by the immune system.

CAPITALIZATION

On September 30, 2008 and December 1, 2008, we had 41,180,748 Common Shares issued and outstanding. If all of our stock options and warrants outstanding as of December 1, 2008 were exercised, we would have 49,271,241 Common Shares issued and outstanding. Following the Offering, we will have up to 43,680,748 Common Shares issued and outstanding (up to 54,521,241 Common Shares on a fully-diluted basis). Following the Offering, and

assuming the Over-Allotment Option is exercised in full, we will have 44,055,748 Common Shares issued and outstanding (55,308,741 Common Shares on a fully-diluted basis).

MARKET FOR SECURITIES

Our outstanding Common Shares are listed and posted for trading on the TSX under the trading symbol ONC and on NASDAQ under the trading symbol ONCY . The following table sets forth the market price ranges and the aggregate volume of trading of the Common Shares on the TSX and NASDAQ for the periods indicated:

	TSX				NASDAQ			
	High ($)	**Low ($)**	**Close ($)**	**Volume (Shares)**	**High (U.S.$)**	**Low (U.S.$)**	**Close (U.S.$)**	**Volume (Shares)**
Period								
2007								
November	2.65	2.10	2.28	600,779	2.77	2.08	2.29	1,038,246
December	2.38	1.67	1.70	355,628	2.38	1.67	1.72	795,031
2008								
January	2.04	1.66	1.95	538,887	2.04	1.69	1.93	622,530
February	2.26	1.82	1.90	564,976	2.27	1.85	1.94	588,210

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	TSX				NASDAQ			
	High ($)	Low ($)	Close ($)	Volume (Shares)	High (U.S.$)	Low (U.S.$)	Close (U.S.$)	Volume (Shares)
March	2.01	1.70	1.83	376,635	2.02	1.70	1.84	618,300
April	2.50	1.78	1.96	1,159,535	2.46	1.76	1.94	1,138,020
May	2.18	1.60	2.15	6,682,910	2.21	1.62	2.15	897,410
June	2.40	1.85	1.98	786,060	2.39	1.84	1.95	934,260
July	2.10	1.80	1.91	508,040	2.00	1.79	1.85	467,500
August	2.01	1.82	1.87	333,770	1.90	1.75	1.77	297,960
September	1.94	1.40	1.57	484,830	1.80	1.32	1.50	634,990
October	1.92	1.23	1.64	1,147,860	1.54	1.00	1.39	2,045,040
November	1.90	1.35	1.44	694,411	1.64	1.12	1.17	1,106,707

USE OF PROCEEDS

Assuming all of the 2,500,000 Units are sold and that the Over-Allotment Option is not exercised, the estimated net proceeds to be received by us from the sale of the Units will be $3,280,000 after deducting the Underwriter s fee of $300,000 and the estimated expenses of the Offering of $170,000. If all of the 2,500,000 Units are sold and the Over-Allotment Option is exercised in full, the estimated net proceeds to be received by us from the sale of the Units will be $3,797,500 after deducting the Underwriter s fee of $345,000 and the estimated expenses of the Offering of $170,000.

The net proceeds for the Offering will be used by us for our research and development program, our manufacturing activities in support of the program and general corporate purposes.

The principle purposes in the research and development area will be the advancement of our clinical trial program and the continued development of our manufacturing process. Our clinical trial program has been designed and directed to test the safety and activity of REOLYSIN® either as a mono-therapy or in combination with other approved chemotherapies.

The net proceeds of this Offering will further these objectives and will assist us in completing our ongoing Phase II clinical trial program. Specifically, the net proceeds will further our mono and co-therapy trials in the U.S. and our co-therapy trials in the U.K. Manufacturing is a key element in the progress towards regulatory approval and the net proceeds will assist in funding the lyophilization and process development activities in this area. These two areas in the development process are expected to cost approximately $6 million in 2009.

We contract out the majority of our activities, conducting our clinical trial program at selected clinical trial sites coordinated and managed through Contract Research Organizations. The manufacturing program is contracted out to a major manufacturer and directed by us.

In order to reach commercial production we will need to receive regulatory approval allowing us to sell REOLYSIN®. To receive regulatory approval, we will be required to run a successful pivotal clinical trial program and validate our cGMP manufacturing process. We expect to commence these activities in the later part of 2009. As we have yet to determine the size of our pivotal trial program, the jurisdictions where we plan to file our program, and who the principal investigators will be, the timing and the ultimate costs of such activities are currently indeterminable.

PRIOR SALES

On December 12, 2007, we granted options to acquire an aggregate of 431,493 Common Shares at an exercise price of $2.22 per Common Share. No other Common Shares or securities exchangeable or convertible into Common Shares have been issued during the twelve month period preceding the date of this prospectus supplement.

DETAILS OF THE OFFERING

The Offering consists of up to 2,500,000 Units (2,875,000 Units if the Over-Allotment Option is exercised in full) at a price of $1.50 per Unit in each of the provinces of British Columbia, Alberta, Manitoba and Ontario. Each Unit consists of one Common Share and one Warrant. The Common Shares and the Warrants comprising the Units will separate immediately on the closing of the Offering.

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Common Shares

We are authorized to issue an unlimited number of Common Shares. Each Common Share entitles the holder to one vote per share held at meetings of shareholders, to receive such dividends as declared by us and to receive our remaining property and assets upon dissolution or winding up. Our Common Shares are not subject to any future call or assessment and there are no pre-emptive, conversion or redemption rights attached to such shares.

Warrants

The Warrants will be governed by an indenture (the **Warrant Indenture**) to be entered into between us and Computershare Trust Company of Canada, as agent for the holders of the Warrants. The following description of the terms of the Warrant Indenture is subject to the detailed provisions of the Warrant Indenture.

Each Warrant will entitle the holder to purchase one Common Share upon payment of $1.80, subject to adjustment as summarized below, at any time until 4:30 p.m. (Calgary time) on the date that is 36 months following the closing of the Offering. If on any Accelerated Exercise Date the 10 day volume weighted average trading price of our Common Shares on the TSX exceeds $2.50 per share, then, at our sole discretion and upon us sending the holders of the Warrants written notice of such Accelerated Exercise Date (the **Notice**) and issuing a news release announcing such Accelerated Exercise Date, the Warrants shall only be exercisable for a period of 30 days following the later of the date on which such Notice is sent to holders of Warrants and the date on which such announcement is made by news release. The Notice will be deemed to be sent by us on the date the Notice is deposited in first class mail to the registered address of the holder of the Warrants as reflected on the Warrant register maintained under the Warrant Indenture.

There is no market through which the Warrants may be sold and purchasers may not be able to resell the Warrants purchased under this prospectus supplement. This may affect the pricing of the Warrants in the secondary market, the transparency and availability of trading prices, the liquidity of such Warrants, and the extent of issuer regulation. See Risk Factors .

Certificates for the Warrants forming part of the Units may be issued in book-entry only form to CDS or its nominee or in fully registered form. If the certificates are issued in fully registered form, a register of holders will be maintained at the principal office of Computershare Trust Company of Canada in Calgary, Alberta. One or more certificates may be exchanged for one or more certificates of different denominations evidencing in the aggregate the same number of Warrants as the certificate or certificates being exchanged. If the certificates representing the Warrants are issued in book-entry only form to CDS or its nominee, Warrants may be exercised by notifying a broker who is a CDS participant prior to the expiry of the Warrants and providing payment of the exercise price for the number of Common Shares for which the Warrants are being exercised.

The Warrant Indenture will provide that the share ratio and exercise price of the Warrants will be subject to adjustment in the event of a subdivision or consolidation of our Common Shares. The Warrant Indenture will also provide that if there is: (i) any reclassification or change of our Common Shares into other shares; (ii) any consolidation, amalgamation, arrangement or other business combination of Oncolytics resulting in any reclassification or change of our Common Shares into other shares; or (iii) any sale, lease, exchange or transfer of our assets as an entity or substantially as an entirety to another entity, then each holder of a Warrant which is thereafter exercised shall receive, in lieu of Common Shares, the kind and number or amount of other securities or property which such holder would have been entitled to receive as a result of such event if such holder had exercised the Warrants prior to the event.

We will also covenant in the Warrant Indenture that, during the period in which the Warrants are exercisable, we will give public notice of our intention to fix a record date for the issuance of rights, options or warrants (other than the Warrants comprising part of the Units) to all or substantially all of the holders of our outstanding Common Shares at least 14 days prior to the record date of such event.

To the extent that a holder of a Warrant would otherwise be entitled to purchase a fraction of a Common Share, Oncolytics, in lieu of issuing a fractional Common Share, shall pay to the holder thereof within five business days of exercise an amount in Canadian dollars equal to the difference between the Current Market Price of the Common Shares on the exercise date multiplied by the fractional interest, provided that Oncolytics shall make only one payment for each beneficial holder exercising such Warrants and shall not be required to make any payment that is less than $10.00. Holders of Warrants do not have any voting or pre-emptive rights or any other rights as shareholders of Oncolytics.

Reference is made to the Warrant Indenture for the full text of the attributes of the Warrants.

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PLAN OF DISTRIBUTION

Under an underwriting agreement dated December 1, 2008 (the **Underwriting Agreement**) between us and the Underwriter, we have agreed to sell and the Underwriter has agreed to purchase, up to 2,500,000 Units at a price of $1.50 per Unit for total consideration of $3,750,000 payable in cash to us against delivery of certificates representing the Common Shares and Warrants comprising the Units. **The Underwriter has no obligation whatsoever to take-up and pay for, in whole or in part, a minimum number of Units offered under this prospectus supplement. The Offering is not subject to a minimum amount of proceeds.** The Units will be offered for sale in the provinces of British Columbia, Alberta, Manitoba and Ontario. The Units will not be offered or sold within the United States or to U.S. Persons (as such term is defined in Regulation S under the U.S. Securities Act).

Closing of the Offering is anticipated to occur on or about December 5, 2008, or on such later date as may be agreed upon by the Corporation and the Underwriter, but in any event no later than December 31, 2008 (subject to the termination right described below (the **Closing Date**)).

The obligation of the Underwriter under the Underwriting Agreement may be terminated at any time if, in the Underwriters reasonable opinion, the state of the financial markets in Canada or elsewhere is such that the Units cannot be marketed profitably or purchasers of a material amount of Units withdraw from their purchase, or on the occurrence of certain other stated events. The Underwriter has reserved the right to offer selling group participation in the Offering to other registered investment dealers.

We have agreed not to issue or announce the issuance of any equity securities or any securities convertible into, exchangeable for or exercisable to acquire equity securities without the prior consent of the Underwriter until a date which is 90 days after the Closing Date, other than pursuant to: (i) presently outstanding rights, or agreements, including options, warrants and other convertible securities and any rights which have been granted, issued or will be issued under the Offering, subject to any necessary regulatory approval; (ii) presently outstanding options granted to officers, directors, employees or consultants of the Corporation or any subsidiary thereof pursuant to the Oncolytics stock option plan (the **Option Plan**); (iii) the Option Plan; or (iv) the issuance of equity or debt securities of the Corporation to suppliers of the Corporation in lieu of monetary payment for goods and services received by the Corporation from such suppliers.

Pursuant to a rule of the Ontario Securities Commission, the Underwriter may not, throughout the period of distribution under this prospectus supplement, bid for or purchase our Common Shares. The foregoing restriction is subject to exceptions, on the condition that the bid or purchase is not engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, our Common Shares. These exceptions include a bid or purchase permitted under the Universal Market Integrity Rules for Canadian Marketplaces of Market Regulation Services Inc. relating to market stabilization and passive market-making activities and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution. Under the first-mentioned exception, in connection with the Offering, the Underwriter may over-allot or effect transactions which stabilize or maintain the market price for the Common Shares at levels other than those which might otherwise prevail in the open market. Those transactions, if commenced, may be discontinued at any time.

The offering price was determined by negotiation between us and the Underwriter. We have agreed to pay the Underwriter (a) a fee equal to 8% of the gross proceeds of the Offering, equal to $0.12 per Unit and (b) all reasonable expenses incurred by the Underwriter in connection with the Offering. The Underwriter is also entitled to be issued up to 287,500 Broker Warrants, exercisable, in whole or part, within three years of the initial closing date of the Offering, subject to acceleration on the same terms and conditions as the Warrants, into Common Shares at an exercise price of

$1.80. The number of Broker Warrants issued to the Underwriter will be equal to 10% of the number of Common Shares issued pursuant to the Offering (including the Over-Allotment Option). This prospectus supplement qualifies the distribution of the Broker Warrants. All fees payable to the Underwriter will be paid on account of services rendered in connection with the Offering and will be paid from the proceeds from the Offering.

We have granted to the Underwriter the Over-Allotment Option, to purchase up to 375,000 additional Units at $1.50 per Unit to cover over-allotments. The Over-Allotment Option must be exercised, in whole or in part, by the Underwriter by providing written notice to us of the exercise thereof by 3:00 p.m (Calgary time) on the business day prior to the Closing Date. If the Over-Allotment Option is exercised in full, the total price to the public, the Underwriter s fee and the net proceeds to us, before expenses, will be $4,312,500, $345,000 and $3,967,500, respectively. The granting of the Over-Allotment Option and the distribution of the Units that may be issued on the exercise of the Over-Allotment Option are also qualified under this prospectus supplement. A purchaser who acquires Units forming part of the Underwriter s over-allocation position, if applicable, acquires those Units under this prospectus supplement, regardless of whether the

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Underwriter s over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

Subject to applicable laws, the Underwriter may, in connection with the Offering, effect transactions which stabilize or maintain the market price of the Common Shares at levels other than those which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

We have agreed to indemnify the Underwriter and its subsidiaries and affiliates and each of their respective directors, officers, employees, partners and shareholders against certain liabilities in connection with the Offering.

The Units will not be offered or sold in the United States or to any U.S. person. The Units offered hereby have been registered under the U.S. Securities Act; however, the Underwriter has agreed that it will not offer or sell the Units as part of the distribution of the Units at any time within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulations S under the U.S. Securities Act.

Our Common Shares are listed on the TSX under the trading symbol ONC and on the NASDAQ under the trading symbol ONCY . On November 28, 2008, the closing price of our Common Shares on the TSX was $1.44 and on NASDAQ was U.S.$1.17. The TSX has conditionally approved the listing of the (i) Common Shares comprising part of the Units; (ii) Common Shares issuable upon exercise of the Warrants comprising part of the Units, and (iii) the Common Shares issuable on the exercise of the Broker Warrants. Listing is subject to us fulfilling all of the requirements of the TSX on or before February 25, 2009.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Counsel, the following is a general summary of the principal Canadian federal income tax considerations generally applicable to an investment in Units pursuant to the Offering. This summary is based upon the current provisions of the Tax Act, the regulations thereunder (the **Regulations**), all specific proposals to amend the Tax Act and the Regulations publicly announced by the Government of Canada prior to the date hereof (the **Proposed Amendments**) and Counsels understanding of the prevailing administrative views of the Canada Revenue Agency (the **CRA**). This summary is not exhaustive of all possible Canadian federal income tax considerations and except for the Proposed Amendments does not otherwise take into account any changes in law, whether by legislative, governmental or judicial action, nor does it take into account or consider any provincial, territorial or foreign income tax considerations. There can be no assurance that the Proposed Amendments will be enacted in their current form or at all.

Residents of Canada

This portion of the summary is applicable to an investor who, for the purposes of the Tax Act and at all relevant times, is resident or is deemed to be resident in Canada. This summary is applicable only to investors who acquire such Units pursuant to the Offering and who for the purposes of the Tax Act and at all relevant times, will hold the Common Shares and Warrants acquired under the Offering as capital property, deal at arm s length, and are not affiliated with us and do not use or hold, and are not deemed to use or hold, their Common Shares and Warrants in, or in the course of, carrying on a business in Canada. Common Shares and Warrants will generally constitute capital property to an investor provided that the investor does not hold such securities in the course of carrying on a business and has not acquired such securities in a transaction or transactions considered to be an adventure or concern in the nature of trade. Certain investors who are resident in Canada for the purposes of the Tax Act whose Common Shares might not otherwise qualify as capital property may be entitled to make an irrevocable election in accordance with subsection 39(4) of the Tax Act to have such Common Shares and every Canadian security (as defined in the Tax Act) owned by

such investor in the taxation year of the election and in all subsequent taxation years treated as capital property. The election is not applicable to the Warrants. This summary does not apply to investors who are financial institutions or specified financial institutions for the purposes of the Tax Act. Such investors should consult their own tax advisors for advice.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular investor. Accordingly, all prospective investors are urged to consult their own tax advisors with respect to their particular circumstances.

Allocation of Purchase Price

For the purposes of the Tax Act, the purchase price of each Unit offered hereby must be allocated, on a reasonable basis, between the Common Share and the Warrant acquired on the acquisition of the Unit in order to determine the respective cost of the Common Share and the Warrant to the investor. Oncolytics believes that it is reasonable to allocate a

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nominal value of the purchase price of each Unit to the Warrant. Investors will be required to allocate, on a reasonable basis, the purchase price of a Unit between the Common Share and the Warrant. However, such allocation is not binding upon the CRA.

The portion of the purchase price of each Unit allocated to the Common Share and to the Warrant, respectively, will become an investor s acquisition cost of the Common Share and the Warrant for income tax purposes. These amounts must generally be averaged with the adjusted cost base of all other common shares and common share purchase warrants of Oncolytics, respectively, held by the investor as capital property to determine the adjusted cost base of all such common shares and common share purchase warrants to the investor.

Exercise of Warrants

An investor will not realize a gain or a loss upon the exercise of a Warrant. For the purposes of the Tax Act, when a Warrant is exercised, the investor s adjusted cost base of the Common Share acquired thereby will (subject to averaging with the investor s adjusted cost base of all common shares of Oncolytics held by the investor as capital property at that time) be the aggregate of the investor s adjusted cost base of the Warrant and the exercise price paid on the exercise of the Warrant.

Expiry of Warrants

The expiry of an unexercised Warrant will generally result in a capital loss to the investor equal to the adjusted cost base of the Warrant immediately prior to the expiry. The tax treatment of capital losses is described in greater detail below under Treatment of Capital Gains and Capital Losses .

Disposition of Common Shares or Warrants

In general, a disposition, or a deemed disposition, of a Common Share, other than to us, or a Warrant, other than on the exercise thereof, will give rise to a capital gain (or a capital loss) in the taxation year of the disposition equal to the amount by which the proceeds of disposition of the Common Share or Warrant, as the case may be, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of the Common Share or Warrant, as the case may be, to the holder thereof. The tax treatment of capital gains and capital losses are described in greater detail below under Treatment of Capital Gains and Capital Losses .

Treatment of Capital Gains and Capital Losses

In the year of disposition an investor will be required to include one-half of the amount of any capital gain (a **taxable capital gain**) in income, and will be generally required to deduct one-half of the amount of any capital loss (an **allowable capital loss**) against taxable capital gains realized by the investor in the year. Allowable capital losses not deducted in the taxation year in which they are realized may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against taxable capital gains realized in such years, to the extent and under the circumstances specified in the Tax Act. A capital gain realized by an investor who is an individual (including certain trusts) may give rise to alternative minimum tax. A Canadian-controlled private corporation (as defined in the Tax Act) may be liable to an additional 62/3% refundable tax under the Tax Act on certain investment income, including taxable capital gains.

The amount of any capital loss realized on the disposition or deemed disposition of a Common Share by an investor that is a corporation may be reduced by the amount of dividends received or deemed to have been received by it on the Common Share to the extent and in the circumstances prescribed by the Tax Act. Similar rules may apply where an investor that is a corporation is a member of a partnership or is beneficiary of a trust that owns Common Shares and

where Common Shares are owned by a partnership or trust of which a partnership or trust is a partner or beneficiary. Investors to whom these rules may be relevant should consult their own tax advisors.

Dividends

Dividends (including deemed dividends) received on Common Shares will be included in computing the investor s income. In the case of an individual investor (other than certain trusts), such dividends will generally be subject to the gross-up and dividend tax credit rules normally applicable to dividends received from taxable Canadian corporations. Provided that appropriate designations are made by us at the time the dividend is paid, such dividend will be treated as an eligible dividend for purposes of the Tax Act and an investor will be entitled to an enhanced gross up and dividend tax credit in respect of such dividend. There may be limitations on our ability to designate dividends as eligible dividends. In

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the case of a corporation, such dividends will generally be deductible in computing the corporation s taxable income. An investor that is a private corporation , as defined in the Tax Act, or any other corporation resident in Canada and controlled by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts) will generally be liable to pay a refundable tax at the rate of 331/3% under Part IV of the Tax Act on dividends received (or deemed to be received) on Common Shares to the extent such dividends are deductible in computing its taxable income.

Alternative Minimum Tax

In general terms, a holder who is an individual (other than certain trusts) that receives or is deemed to receive taxable dividends on the Common Shares or realizes a capital gain on the disposition of the Common Shares or Warrants may realize an increase in the holder s liability for alternative minimum tax.

Non-Residents of Canada

This portion of the summary is applicable to an investor who, for the purposes of the Tax Act and at all relevant times, is not, and has never been, resident in Canada and is not, and has never been, deemed to be resident in Canada, does not use or hold, and is not deemed to use or hold, Units in, or in the course of, carrying on business in Canada, and is not an insurer who carries on an insurance business in Canada and elsewhere (a **Non-Resident Holder**).

Allocation of the Purchase Price

A Non-Resident Holder will be required to allocate the purchase price of each Unit between the Common Share and the Warrant in the same manner described above under Residents of Canada Allocation of Purchase Price .

Disposition of Common Shares and Warrants

A Non-Resident Holder will be subject to tax under the Tax Act in respect of a disposition of Common Shares only to the extent such Common Shares constitute taxable Canadian property for purposes of the Tax Act and the Non-Resident Holder is not afforded relief from such tax under an applicable income tax treaty.

The Common Shares will normally not be taxable Canadian property at a particular time provided that: (i) the Common Shares are listed on a designated stock exchange at the particular time (which includes the TSX and NASDAQ); (ii) the Non-Resident Holder, persons with whom the Non-Resident Holder does not deal at arm s length (within the meaning of the Tax Act), or the Non-Resident Holder together with such persons, did not own 25% or more of the issued shares of any class or series of Oncolytics at any time during the 60-month period preceding the particular time; and (iii) such Common Shares are not otherwise deemed under the Tax Act to be taxable Canadian property at the particular time.

A Non-Resident Holder will not be subject to tax under the Tax Act on the exercise of Warrants. A disposition of Warrants (other than on the exercise thereof) will be subject to tax under the Tax Act only to the extent that such Warrants constitute taxable Canadian property for purposes of the Tax Act and the Non-Resident Holder is not afforded relief under an applicable income tax treaty.

The Warrants will normally not be taxable Canadian property at a particular time provided that: (i) the Common Shares are listed on a prescribed stock exchange at the particular time (which includes the TSX and NASDAQ); (ii) the Warrants held by the Non-Resident Holder, together with any other options or rights held by the Non-Resident Holder to acquire our shares, were not exerciseable into 25% or more of the issued shares of any class or series of Oncolytics at any time during the 60-month period preceding the particular time; and (iii) the Non-Resident Holder,

persons with whom the Non-Resident Holder does not deal at arm s length (within the meaning of the Tax Act), or the Non-Resident Holder together with such persons, did not own 25% or more of the issued shares of any class or series of Oncolytics at any time during the 60-month period preceding the particular time.

A Non-Resident Holder who is subject to tax under the Tax Act on a disposition of Common Shares or Warrants will generally be required to compute such gains in the same manner described above under Residents of Canada Disposition of Common Shares or Warrants .

Dividends

Dividends paid or credited, or which are deemed to be paid or credited, on the Common Shares will be subject to a Canadian non-resident withholding tax of 25%, subject to reduction of such rate under an applicable income tax treaty. For example, Non-Resident Holders who are residents of the United States for the purposes of the *Canada-United States*

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Tax Convention, 1980 will generally have such rate of withholding reduced to 15% (or 5% if such Non-Resident Holder is a company which owns at least 10% of the voting stock of Oncolytics).

Non-Resident Holders should consult their tax advisors with respect to the tax implications of acquiring Units pursuant to the Offering in their jurisdiction of residence and the application of any bilateral income tax treaty between Canada and their jurisdiction of residence.

RISK FACTORS

Prospective purchasers of Units should consider carefully the risk factors set out herein and contained in and incorporated by reference in the accompanying base shelf prospectus. Discussions of certain risks affecting Oncolytics in connection with its business are provided in our annual disclosure documents filed with the various securities regulatory authorities which are incorporated by reference in the accompanying base shelf prospectus.

There can be no assurance as to the liquidity of the trading market for the Warrants or that a trading market for the Warrants will develop.

There is currently no public market through which the Warrants may be sold and we do not intend to apply for the listing of the Warrants on any securities exchanges. This may affect the pricing of the Warrants in the secondary market, the transparency and availability of trading prices, the liquidity of the Warrants, and the extent of issuer regulation.

Bermuda law differs from the laws in effect in Canada and may afford less protection to holders of our securities.

Certain of our assets and intellectual property are held by our wholly-owned subsidiary, Oncolytics Barbados, which is organized under the laws of Bermuda. It may not be possible to enforce court judgments obtained in Canada against Oncolytics Barbados in Bermuda based on the civil liabilities provisions of applicable securities laws. In addition, there is some doubt as to whether the courts of Bermuda would recognize or enforce judgments of Canada courts obtained against us or our directors or officers based on the civil liabilities provisions of Canadian securities laws or hear actions against us or those persons based on such laws.

Changes in law could adversely affect our business and corporate structure.

There can be no assurances that there will not occur changes in corporate, tax, property and other laws in Canada and/or Barbados (or the interpretation thereof by regulatory or tax authorities) which may materially and adversely affect our businesses and corporate structure.

INTEREST OF EXPERTS

The auditors of the Corporation are Ernst & Young LLP, Chartered Accountants, 1000, 440 2nd Avenue S.W., Calgary, Alberta, T2P 5E9. Ernst & Young LLP is independent of Oncolytics in accordance with the Rules of Professional Conduct as outlined by the Institute of Chartered Accountants of Alberta. Ernst & Young LLP is registered with the U.S. Public Company Accounting Oversight Board.

Certain legal matters relating to the Offering will be passed upon by Bennett Jones LLP with respect to certain Canadian legal matters and by Dorsey & Whitney LLP with respect to certain U.S. legal matters on behalf of the Corporation and by Fraser Milner Casgrain LLP with respect to certain Canadian legal matters on behalf of the Underwriter. As at the date hereof, the partners and associates of Bennett Jones LLP, as a group, and the partners and associates of Dorsey & Whitney LLP, as a group, each beneficially own directly or indirectly, less than 1% of the

Common Shares; and the partners and associates of Fraser Milner Casgrain LLP, as a group own, beneficially own directly or indirectly, less than 1% of the Common Shares.

In addition, none of the aforementioned persons or firms, nor any director, officer or employee of any of the aforementioned persons or firms is or is expected to be elected, appointed or employed as a director, officer or employee of the Corporation or any associate or affiliate of the Corporation.

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Base Shelf Prospectus

This short form prospectus has been filed under legislation in each of the provinces of British Columbia, Alberta, Manitoba and Ontario that permits certain information about these securities to be determined after this short form prospectus has become final and that permits the omission from this short form prospectus of that information. The legislation requires the delivery to purchasers of a prospectus supplement containing the omitted information within a specified period of time after agreeing to purchase any of these securities.

This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. *Copies of the documents incorporated herein by reference may be obtained on request without charge from the Corporate Secretary of Oncolytics Biotech Inc. at 210, 1167 Kensington Crescent N.W., Calgary, Alberta T2N 1X7 telephone (403) 670-7377, and are available electronically* at *www.sedar.com. See Documents Incorporated by Reference .*

Final Short Form Prospectus

New Issue **Dated June 16, 2008**

Cdn. $150,000,000

Common Shares
Subscription Receipts
Warrants
Debt Securities
Units

We may from time to time during the 25-month period that this prospectus (the **Prospectus**), including any amendments, remains valid, sell under this Prospectus up to Cdn. $150,000,000 (or the equivalent in other currencies or currency units) aggregate initial offering price of our common shares (**Common Shares**), subscription receipts (**Subscription Receipts**), warrants to purchase Common Shares (**Warrants**), senior or subordinated unsecured debt securities (**Debt Securities**), and/or units comprised of one or more of the other securities described in this Prospectus in any combination, (**Units** and, together with the Common Shares, Subscription Receipts, Debt Securities and Warrants, the **Securities**). We may offer Securities in such amount and, in the case of the Subscription Receipts, Debt Securities, Warrants and Units, with such terms, as we may determine in light of market conditions. We may sell the Subscription Receipts, Debt Securities and Warrants in one or more series.

There are certain risk factors that should be carefully reviewed by prospective purchasers. See Risk Factors .

The specific variable terms of any offering of Securities will be set forth in a supplement to this Prospectus relating to such Securities (each, a **Prospectus Supplement**) including where applicable: (i) in the case of the Common Shares,

the number of Common Shares offered, the currency (which may be Canadian dollars or any other currency), the issue price and any other specific terms; (ii) in the case of Subscription Receipts, the number of Subscription Receipts offered, the currency (which may be Canadian dollars or any other currency), the issue price, the terms and procedures for the

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exchange of the Subscription Receipts and any other specific terms; (iii) in the case of Warrants, the designation, the number of Warrants offered, the currency (which may be Canadian dollars or any other currency), number of the Common Shares that may be acquired upon exercise of the Warrants, the exercise price, dates and periods of exercise, adjustment procedures and any other specific terms; (iv) in the case of Debt Securities, the designation, aggregate principal amount and authorized denominations of the Debt Securities, any limit on the aggregate principal amount of the Debt Securities, the currency (which may be Canadian dollars or any other currency), the issue price (at par, at a discount or at a premium), the issue and delivery date, the maturity date (including any provisions for the extension of a maturity date), the interest rate (either fixed or floating and, if floating, the method of determination thereof), the interest payment date(s), the provisions (if any) for subordination of the Debt Securities to other indebtedness, any redemption provisions, any repayment provisions, any terms entitling the holder to exchange or convert the Debt Securities into other securities and any other specific terms; and (v) in the case of Units, the designation, the number of Units offered, the offering price, the currency (which may be Canadian dollars or any other currency), terms of the Units and of the securities comprising the Units and any other specific terms.

We are permitted, as a foreign issuer in the United States, under a multi-jurisdictional disclosure system adopted by the United States and Canada, to prepare this Prospectus in accordance with Canadian disclosure requirements. You should be aware that such requirements are different from those of the United States. We have prepared our financial statements included or incorporated herein by reference in accordance with Canadian generally accepted accounting principles, and they are subject to Canadian auditing and auditor independence standards. Thus, they may not be comparable to the financial statements of United States companies. Information regarding the impact upon our financial statements of significant differences between Canadian and United States generally accepted accounting principles is contained in the notes to the financial statements incorporated by reference in this Prospectus.

You should be aware that the purchase of the Securities may have tax consequences both in the United States and Canada. Such consequences for investors who are resident in, or citizens of, the United States may not be described fully herein. You should read the tax discussion contained in the applicable Prospectus Supplement with respect to a particular offering of securities. See Certain Income Tax Considerations .

Your ability to enforce civil liabilities under United States federal securities laws may be affected adversely by the fact that we are incorporated under the laws of Canada, the majority of our officers and directors and some of the experts named in this Prospectus are residents of Canada, and a substantial portion of our assets and the assets of such persons are located outside the United States.

NEITHER THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (THE SEC) NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THESE SECURITIES NOR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE.

All shelf information permitted under applicable laws to be omitted from this Prospectus will be contained in one or more Prospectus Supplements that will be delivered to purchasers together with this Prospectus. Each Prospectus Supplement will be incorporated by reference into this Prospectus for the purposes of securities legislation as of the date of the Prospectus Supplement and only for the purposes of the distribution of the Securities to which the Prospectus Supplement pertains.

Our outstanding securities are listed for trading on the Toronto Stock Exchange under the trading symbol ONC and on the NASDAQ Capital Market under the trading symbol ONCY . Unless otherwise specified in any applicable Prospectus Supplement, the Subscription Receipts, Warrants, Debt Securities, and Units will not be listed on any securities exchange. **There is no market through which the Subscription Receipts, Warrants, Debt Securities or**

Units may be sold and purchasers may not be able to resell the Subscription Receipts, Warrants, Debt Securities or Units purchased under this Prospectus. This may affect the pricing of these securities in the secondary market, the transparency and availability of trading prices, the liquidity of the securities, and the extent of issuer regulation. See the Risk Factors section of the applicable Prospectus Supplement.

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We may sell the Securities to or through underwriters, dealers, placement agents or other intermediaries or directly to purchasers or through agents. See Plan of Distribution . The Prospectus Supplement relating to a particular offering of Securities will identify each person who may be deemed to be an underwriter with respect to such offering and will set forth the terms of the offering of such Securities, including, to the extent applicable, the initial public offering price, the proceeds that we will receive, the underwriting discounts or commissions and any other discounts or concessions to be allowed or reallowed to dealers. The managing underwriter or underwriters with respect to Securities sold to or through underwriters, if any, will be named in the related Prospectus Supplement.

Subject to applicable securities legislation, in connection with any offering of Securities under this Prospectus, the underwriters, if any, may over-allot or effect transactions which stabilize or maintain the market price of the Securities offered at a level above that which might otherwise prevail in the open market. These transactions, if commenced, may be discontinued at any time. See Plan of Distribution .

You should rely only on the information contained in this Prospectus. We have not authorized anyone to provide you with information different from that contained in this Prospectus.

Our head office and principal place of business is located at 210, 1167 Kensington Crescent N.W., Calgary, Alberta T2N 1X7. Our registered office is located at 4500 Bankers Hall East, 855 2nd Street S.W., Calgary, Alberta T2P 4K7.

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DEFINITIONS AND OTHER MATTERS

In this Prospectus and any Prospectus Supplement, unless otherwise indicated, references to we , us , our , Oncolytics the Corporation are to Oncolytics Biotech Inc. All references to dollars , Cdn.$ or $ are to Canadian dollars and all references to U.S.$ are to United States dollars. Unless otherwise indicated, all financial information included and incorporated by reference in this Prospectus and any Prospectus Supplement is determined using Canadian generally accepted accounting principles.

We prepare our financial statements in accordance with Canadian generally accepted accounting principles (**Canadian GAAP**), which differ from United States generally accepted accounting principles (**U.S. GAAP**). Therefore, our financial statements incorporated by reference in this Prospectus and any Prospectus Supplement and in the documents incorporated by reference in this Prospectus and in any applicable Prospectus Supplement may not be comparable to financial statements prepared in accordance with U.S. GAAP. You should refer to Note 21 of our financial statements for the year ended December 31, 2007 for a discussion of the principal differences between our financial results determined under Canadian GAAP and under U.S. GAAP. For our financial statements as at and for the three months ended March 31, 2008, you should refer to our reconciliation of our financial statements as at and for the three months ended March 31, 2008 to U.S. GAAP furnished to the SEC on the Company s Current Report on Form 6-K dated June 4, 2008 and incorporated into this Prospectus by reference. See Documents Incorporated by

Reference .

SPECIAL NOTICE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements that we make contain forward-looking statements reflecting our current beliefs, plans, estimates and expectations. Readers are cautioned that these forward-looking statements involve risks and uncertainties, including, without limitation, clinical trial study delays, product development delays, our ability to attract and retain

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business partners, future levels of government funding, competition from other biotechnology companies and our ability to obtain the capital required for research, product development, operations and marketing. These factors should be carefully considered and readers should not place undue reliance on our forward-looking statements. Actual events may differ materially from our current expectations due to risks and uncertainties.

Our statements of belief , estimates , expectations and other similar statements are based primarily upon our results derived to date from our research and development program with animals and early stage human results and upon which we believe we have a reasonable scientific basis to expect the particular results to occur. It is not possible to predict, based upon studies in animals or early stage human results, whether a new therapeutic will be proved to be safe and effective in humans. There can be no assurance that the particular result expected by us will occur. Except as required by applicable securities laws, we undertake no obligation to update publicly any forward-looking statements for any reason after the date of this Prospectus or to conform these statements to actual results or to changes in our expectations.

DOCUMENTS INCORPORATED BY REFERENCE

Information has been incorporated by reference in this Prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from our Corporate Secretary at 210, 1167 Kensington Crescent N.W., Calgary, Alberta T2N 1X7 telephone (403) 670-7377, and are available electronically at www.sedar.com.

We have filed the following documents with the securities commissions or similar regulatory authorities in certain of the provinces of Canada and such documents are specifically incorporated by reference in this Prospectus:

- our Renewal Annual Information Form dated March 5, 2008, for the year ended December 31, 2007 (the **AIF**);
- our Management Proxy Circular dated March 23, 2007 relating to the annual and special meeting of shareholders held on May 2, 2007;
- our Management Proxy Circular dated March 20, 2008 relating to the annual and special meeting of shareholders held on May 7, 2008;
- our audited financial statements, together with the notes thereto, for the years ended December 31, 2007 and 2006 and the auditors report thereon addressed to our shareholders;
- our management s discussion and analysis of financial condition and results of operations dated March 5, 2008, for the year ended December 31, 2007;
- our unaudited interim consolidated financial statements as at and for the three months ended March 31, 2008, together with the notes thereto;
- our management s discussion and analysis of financial condition and results of operations dated April 30, 2008, for the three months ended March 31, 2008; and
- the reconciliation of our consolidated financial statements as at and for the three months ended March 31, 2008 to U.S. GAAP, filed on June 3, 2008 under the heading Other .

Any documents of the type required by National Instrument 44-101 Short Form Prospectus Distributions of the Canadian Securities Administrators to be incorporated by reference in a short form prospectus, including any annual information form, comparative annual financial statements and the auditors report thereon, comparative interim financial statements, management s discussion and analysis of financial condition and results of operations, material change report (except a confidential material change report), business acquisition report and information circular, if filed by us with the securities commissions or similar authorities in the provinces of Canada after the date of this Prospectus shall be deemed to be incorporated by reference in this Prospectus.

Any report filed by us with the SEC pursuant to section 13(a), 13(c), 14 or 15(d) of the United States Securities Exchange Act of 1934 after the date of this Prospectus shall be deemed to be incorporated by reference into the registration statement of which this Prospectus forms a part, if and to the extent expressly provided in such report.

Any statement contained in this Prospectus or in a document incorporated or deemed to be incorporated by reference herein will be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained in this Prospectus or in any other subsequently filed document which also is, or is deemed to be, incorporated by reference into this Prospectus modifies or supersedes that statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other

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information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute part of this Prospectus.

Upon a new annual information form and related audited annual financial statements and management s discussion and analysis being filed by us with, and where required, accepted by, the securities commission or similar regulatory authority in each of the provinces of British Columbia, Alberta, Manitoba and Ontario during the term of this Prospectus, the previous annual information form, the previous audited annual financial statements and related management s discussion and analysis, all unaudited interim financial statements and related management s discussion and analysis, material change reports and business acquisition reports filed prior to the commencement of our financial year in which the new annual information form and related audited annual financial statements and management s discussion and analysis are filed shall be deemed no longer to be incorporated into this Prospectus for purposes of future offers and sales of Securities under this Prospectus. Upon new interim financial statements and related management s discussion and analysis being filed by us with the securities commission or similar regulatory authority in each of the provinces of British Columbia, Alberta, Manitoba and Ontario during the term of this Prospectus, all interim financial statements and related management s discussion and analysis filed prior to the new interim consolidated financial statements and related management s discussion and analysis shall be deemed no longer to be incorporated into this Prospectus for purposes of future offers and sales of Securities under this Prospectus. Upon a new information circular relating to an annual meeting of holders of Common Shares being filed by us with the securities commission or similar regulatory authority in each of the provinces of British Columbia, Alberta, Manitoba and Ontario during the term of this Prospectus, the information circular for the preceding annual meeting of holders of Common Shares shall be deemed no longer to be incorporated into this Prospectus for purposes of future offers and sales of Securities under this Prospectus.

One or more Prospectus Supplements containing the specific variable terms for an issue of the Securities and other information in relation to such Securities will be delivered to purchasers of such Securities together with this Prospectus and will be deemed to be incorporated by reference into this Prospectus as of the date of the Prospectus Supplement solely for the purposes of the offering of the Securities covered by any such Prospectus Supplement.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed with the SEC a registration statement on Form F-10 relating to the Securities. This Prospectus, which constitutes a part of the registration statement, does not contain all of the information contained in the registration statement, certain items of which are contained in the exhibits to the registration statement as permitted by the rules and regulations of the SEC.

We file annual and quarterly financial information and material change reports and other material with the SEC and with the securities commissions or similar regulatory authorities in Canada. Under a multi-jurisdictional disclosure system adopted by the United States, documents and other information that we file with the SEC may be prepared in accordance with the disclosure requirements of Canada, which are different from those of the United States. You may read and copy any document that we have filed with the SEC at the SEC s public reference rooms in Washington, D.C. and Chicago, Illinois. You may also obtain copies of those documents from the public reference room of the SEC at 100 F Street, N.E., Washington, D.C. 20549 by paying a fee. You should call the SEC at 1-800-SEC-0330 or access its website at www.sec.gov for further information about the public reference rooms. You may read and download some of the documents we have filed with the SEC s Electronic Data Gathering and Retrieval system at www.sec.gov. You may read and download any public document that we have filed with the securities commissions or similar

regulatory authorities in Canada at www.sedar.com.

ENFORCEABILITY OF CIVIL LIABILITIES

We are a corporation existing under the *Business Corporations Act* (Alberta). The majority of our officers and directors and some of the experts named in this Prospectus, are residents of Canada or otherwise reside outside the United States, and all, or a substantial portion of their assets and a substantial portion of our assets, are located outside the United States. We have appointed an agent for service of process in the United States, but it may be difficult for holders of Securities who reside in the United States to effect service within the United States upon those directors, officers and

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experts who are not residents of the United States. It may also be difficult for holders of Securities who reside in the United States to realize in the United States upon judgments of courts of the United States predicated upon our civil liability and the civil liability of our directors, officers and experts under the United States federal securities laws. We have been advised by our Canadian counsel, Bennett Jones LLP, that a judgment of a United States court predicated solely upon civil liability under United States federal securities laws would probably be enforceable in Canada if the United States court in which the judgment was obtained has a basis for jurisdiction in the matter that would be recognized by a Canadian court for the same purposes. We have also been advised by Bennett Jones LLP, however, that there is substantial doubt whether an action could be brought in Canada in the first instance on the basis of liability predicated solely upon United States federal securities laws.

We filed with the SEC, concurrently with our registration statement on Form F-10, an appointment of agent for service of process on Form F-X. Under the Form F-X, we appointed DL Services, Inc. at 1420, Fifth Avenue, Suite 3400, Seattle, Washington 98101 as our agent for service of process in the United States in connection with any investigation or administrative proceeding conducted by the SEC, and any civil suit or action brought against or involving us in a United States court arising out of or related to or concerning the offering of the Securities under this Prospectus.

RISK FACTORS

A prospective purchaser of Securities should carefully consider the list of risk factors set forth below as well as the other information contained in and incorporated by reference in this Prospectus before purchasing our Securities.

All of our potential products, including REOLYSIN®, are in the research and development stage and will require further development and testing before they can be marketed commercially.

Prospects for companies in the biotechnology industry generally may be regarded as uncertain given the nature of the industry and, accordingly, investments in biotechnology companies should be regarded as speculative. We are currently in the research and development stage on one product, REOLYSIN®, for human application, the riskiest stage for a company in the biotechnology industry. It is not possible to predict, based upon studies in animals and early stage human clinical trials whether REOLYSIN® will prove to be safe and effective in humans. REOLYSIN® will require additional research and development, including extensive additional clinical testing, before we will be able to obtain the approvals of the relevant regulatory authorities in applicable countries to market REOLYSIN® commercially. There can be no assurance that the research and development programs we conducted will result in REOLYSIN® or any other products becoming commercially viable products, and in the event that any product or products result from the research and development program, it is unlikely they will be commercially available for a number of years.

To achieve profitable operations we, alone or with others, must successfully develop, introduce and market our products. To obtain regulatory approvals for products being developed for human use, and to achieve commercial success, human clinical trials must demonstrate that the product is safe for human use and that the product shows efficacy. Unsatisfactory results obtained from a particular study relating to a program may cause us to abandon our commitment to that program or the product being tested. No assurances can be provided that any current or future animal or human test, if undertaken, will yield favourable results. If we are unable to establish that REOLYSIN® is a safe, effective treatment for cancer, we may be required to abandon further development of the product and develop a new business strategy.

There are inherent risks in pharmaceutical research and development.

Pharmaceutical research and development is highly speculative and involves a high and significant degree of risk. The marketability of any product we develop will be affected by numerous factors beyond our control, including but not limited to:

- the discovery of unexpected toxicities or lack of sufficient efficacy of products which make them unattractive or unsuitable for human use;
- preliminary results as seen in animal and/or limited human testing may not be substantiated in larger, controlled clinical trials;
- manufacturing costs or other production factors may make manufacturing of products ineffective, impractical and non-competitive;
- proprietary rights of third parties or competing products or technologies may preclude commercialization;

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requisite regulatory approvals for the commercial distribution of products may not be obtained; and

other factors may become apparent during the course of research, up-scaling or manufacturing which may result in the discontinuation of research and other critical projects.

Our products under development have never been manufactured on a commercial scale, and there can be no assurance that such products can be manufactured at a cost or in a quantity to render such products commercially viable. Production and utilization of our products may require the development of new manufacturing technologies and expertise. The impact on our business in the event that new manufacturing technologies and expertise are required to be developed is uncertain. There can be no assurance that we will successfully meet any of these technological challenges, or others that may arise in the course of development.

Pharmaceutical products are subject to intense regulatory approval processes.

The regulatory process for pharmaceuticals, which includes preclinical studies and clinical trials of each compound to establish its safety and efficacy, takes many years and requires the expenditure of substantial resources. Moreover, if regulatory approval of a drug is granted, such approval may entail limitations on the indicated uses for which it may be marketed. Failure to comply with applicable regulatory requirements can, among other things, result in suspension of regulatory approvals, product recalls, seizure of products, operating restrictions and criminal prosecution. Further, government policy may change, and additional government regulations may be established that could prevent or delay regulatory approvals for our products. In addition, a marketed drug and its manufacturer are subject to continual review. Later discovery of previously unknown problems with the product or manufacturer may result in restrictions on such product or manufacturer, including withdrawal of the product from the market and risk of litigation.

The U.S. Food and Drug Administration (the **FDA**) in the United States and similar regulatory authorities in other countries may deny approval of a new drug application if required regulatory criteria are not satisfied, or may require additional testing. Product approvals may be withdrawn if compliance with regulatory standards is not maintained or if problems occur after the product reaches the market. The FDA and similar regulatory authorities in other countries may require further testing and surveillance programs to monitor the pharmaceutical product that has been commercialized. Non-compliance with applicable requirements can result in fines and other judicially imposed sanctions, including product withdrawals, product seizures, injunction actions and criminal prosecutions.

In addition to our own pharmaceuticals, we may supply active pharmaceutical ingredients and advanced pharmaceutical intermediates for use in our customers drug products. The final drug products in which the pharmaceutical ingredients and advanced pharmaceutical intermediates are used, however, are subject to regulation for safety and efficacy by the FDA and other jurisdictions, as the case may be. Such products must be approved by such agencies before they can be commercially marketed. The process of obtaining regulatory clearance for marketing is uncertain, costly and time consuming. We cannot predict how long the necessary regulatory approvals will take or whether our customers will ever obtain such approval for their products. To the extent that our customers do not obtain the necessary regulatory approvals for marketing new products, our product sales could be adversely affected.

The FDA and other governmental regulators have increased requirements for drug purity and have increased environmental burdens upon the pharmaceutical industry. Because pharmaceutical drug manufacturing is a highly regulated industry, requiring significant documentation and validation of manufacturing processes and quality control assurance prior to approval of the facility to manufacture a specific drug, there can be considerable transition time between the initiation of a contract to manufacture a product and the actual initiation of manufacture of that product. Any lag time in the initiation of a contract to manufacture product and the actual initiation of manufacture could cause us to lose profits or incur liabilities.

The pharmaceutical regulatory regime in Europe and other countries is, by and large, generally similar to that of the United States. We could face similar risks in these other jurisdictions, as the risks described above.

Our operations and products may be subject to other government manufacturing and testing regulations.

Securing regulatory approval for the marketing of therapeutics by the FDA in the United States and similar regulatory agencies in other countries is a long and expensive process, which can delay or prevent product development and marketing. Approval to market products may be for limited applications or may not be received at all.

The products we anticipate manufacturing will have to comply with the FDA s current Good Manufacturing Practices (**GMP**) and other FDA, and local government guidelines and regulations, including other international regulatory requirements and guidelines. Additionally, certain of our customers may require the manufacturing facilities

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contracted by us to adhere to additional manufacturing standards, even if not required by the FDA. Compliance with GMP regulations requires manufacturers to expend time, money and effort in production, and to maintain precise records and quality control to ensure that the product meets applicable specifications and other requirements. The FDA and other regulatory bodies periodically inspect drug-manufacturing facilities to ensure compliance with applicable GMP requirements. If the manufacturing facilities contracted by us fail to comply with the GMP requirements, the facilities may become subject to possible FDA or other regulatory action and manufacturing at the facility could consequently be suspended. We may not be able to contract suitable alternative or back-up manufacturing facilities on terms acceptable to us or at all.

The FDA or other regulatory agencies may also require the submission of any lot of a particular product for inspection. If the lot product fails to meet the FDA requirements, then the FDA could take any of the following actions: (i) restrict the release of the product; (ii) suspend manufacturing of the specific lot of the product; (iii) order a recall of the lot of the product; or (iv) order a seizure of the lot of the product.

We are subject to regulation by governments in many jurisdictions and, if we do not comply with healthcare, drug, manufacturing and environmental regulations, among others, our existing and future operations may be curtailed, and we could be subject to liability.

In addition to the regulatory approval process, we may be subject to regulations under local, provincial, state, federal and foreign law, including requirements regarding occupational health, safety, laboratory practices, environmental protection and hazardous substance control, and may be subject to other present and future local, provincial, state, federal and foreign regulations.