ONCOLYTICS BIOTECH INC
Form 20-F
March 15, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

o REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For fiscal year ended December 31, 2009

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____ to _____

OR

o SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report:

Commission file number: 0-31062

ONCOLYTICS BIOTECH INC.

(Exact name of Registrant as specified in its charter)

Province of Alberta, Canada

(Jurisdiction of incorporation or organization)

Suite 210, 1167 Kensington Crescent, N.W. Calgary, Alberta, T2N 1X7

(Address of principal executive offices)

Doug Ball

Suite 210, 1167 Kensington Crescent, N.W. Calgary, Alberta, T2N 1X7

Tel: (403) 670-7377

E-mail: info@oncolytics.ca

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of each exchange on which registered**
Common Shares, no par value	NASDAQ Capital Market

Securities registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the Registrant's classes of capital or common stock as of the close of the period covered by the annual report: 61,549,969 **common shares as at December 31, 2009**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

If this report is an annual or transition report, indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes o No x

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer o Accelerated filer xNon-accelerated filer o

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP o	International Reporting Standards as issued	o
Other x	by the International Accounting Standards Board	

If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 o Item 18 x

If this is an annual report, indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

ONCOLYTICS BIOTECH INC.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this annual report and the documents attached as exhibits to this annual report constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Oncolytics Biotech Inc., or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements are statements that are not historical facts, and include, but are not limited to, estimates and their underlying assumptions; statements regarding plans, objectives and expectations with respect to the efficacy of our technologies; the timing and results of clinical studies related to our technologies; future operations, products and services; the impact of regulatory initiatives on our operations; the size of and opportunities related to the markets for our technologies; general industry and macroeconomic growth rates; expectations related to possible joint and/or strategic ventures and statements regarding future performance. Forward-looking statements generally, but not always, are identified by the words “expects,” “anticipates,” “believes,” “intends,” “estimates,” “projects”, “potential”, “possible” and similar expressions, or that even conditions “will,” “may,” “could” or “should” occur.

The forward-looking statements in this annual report are subject to various risks and uncertainties, most of which are difficult to predict and generally beyond our control, including without limitation:

- risks related all of our products, including REOLYSIN®, being in the research and development stage and requiring further development and testing before they can be marketed commercially;
- risks inherent in pharmaceutical research and development;
- risks related to our pharmaceutical products being subject to intense regulatory approval processes;
- risks related to the extremely competitive biotechnology industry and our competition with larger companies with greater resources;
- risks related to our reliance on patents and proprietary rights to protect our technology;
- risks related to potential products liability claims;
- risks related to our limited manufacturing experience and reliance on third parties to commerically manufacture our products, if and when developed;
- risks related to our new products not being accepted by the medical community or consumers;
- risks related to our technologies becoming obsolete;
- risks related to our dependence on third party relationships for research and clinical trials;
- risks related to our lack of operating revenues and history of losses;
- uncertainty regarding our ability to obtain third-party reimbursement for the costs of our product;
- risks related to our ability to obtain additional financing to fund future research and development of our products and to meet ongoing capital requirements;
- risks related to potential increases in the cost of director and officer liability insurance;
- risks related to our dependence on key employees and collaborators;
- risks related to Barbados law;
- risks related to the effect of changes in the law on our corporate structure;
- risks related to expenses in foreign currencies and our exposure to foreign currency exchange rate fluctuations;
- risk related to possible “passive foreign investment company” status;

- risks related to fluctuations in interest rates; and risks related to our common shares.

This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements. Some of the important risks and uncertainties that could affect forward-looking statements are described further under the section heading "Item 3. Key Information – D. Risk Factors" below. If one or more of these risks or uncertainties materializes, or if underlying assumptions prove incorrect, our actual results may vary materially from those expected, estimated or projected. Forward-looking statements in this document are not a prediction of future events or circumstances, and those future events or circumstances may not occur. Given these uncertainties, users of the information included herein, including investors and prospective investors are cautioned not to place undue reliance on such forward-looking statements. Investors should consult our quarterly and annual filings with Canadian and U.S. securities commissions for additional information on risks and uncertainties relating to forward-looking statements. We do not assume responsibility for the accuracy and completeness of these statements.

Forward-looking statements are based on our beliefs, opinions and expectations at the time they are made, and we do not assume any obligation to update our forward-looking statements if those beliefs, opinions, or expectations, or other circumstances, should change, except as required by applicable law.

All references in this annual report on Form 20-F to the terms "we", "our", "us", "the Company" and "Oncolytics" refer to Oncolytics Biotech Inc.

CURRENCY AND EXCHANGE RATES

Canadian Dollars Per U.S. Dollar

The following table sets out the exchange rates for one United States dollar ("US$") expressed in terms of one Canadian dollar ("Cdn$") in effect at the end of the following periods, and the average exchange rates (based on the average of the exchange rates on the last day of each month in such periods) and the range of high and low exchange rates for such periods.

	Canadian Dollars Per U.S. Dollars					
	2009	**2008**	**2007**	**2006**	**2005**	**2004**
Average for the period	0.8760	0.9441	0.9348	0.8820	0.8259	0.7697
Low for the period	0.9755	1.0289	1.0905	0.9099	0.8690	0.8493

For the Month of						
	February	**January**	**December**	**November**	**October**	**September**
	2010	**2010**	**2009**	**2009**	**2009**	**2009**
High for the period	0.9283	0.9350	0.9304	0.9234	0.9123	0.9007
Low for the period	0.9642	0.9780	0.9647	0.9590	0.9755	0.9442

Exchange rates are based on the Bank of Canada nominal noon exchange rates. The nominal noon exchange rate on March 11, 2010 as reported by the Bank of Canada for the conversion of United States dollars into Canadian dollars was US$1.00 = Cdn$1.0265. Unless otherwise indicated, in this annual report on Form 20-F, all references herein are to Canadian Dollars.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The following table of selected financial data has been derived from financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP") which have been reconciled with U.S. GAAP in accordance with Item 18 (see note 23 of the audited financial statements). The data is qualified by reference to, and should be read in conjunction with, the audited financial statements, and related notes thereto, prepared in accordance with Canadian GAAP (See Item 18, "Financial Statements"). All dollar amounts are expressed in Canadian dollars. For exchange rate data please see the section heading "Currency and Exchange Rates" above.

	2009 $	2008 $	2007 $	2006 $	2005 $
Revenues	—	—	—	—	—
Net loss, Canadian GAAP[2]	16,231,249	17,550,204	15,950,426	14,628,291	13,256,271
Net loss, U.S. GAAP[2]	14,999,569	17,188,704	15,588,926	14,266,791	12,894,771
Basic and diluted loss per share, Canadian GAAP[2], [3]	0.33	0.42	0.39	0.40	0.40
Basic and diluted loss per share, U.S. GAAP[2], [3]	0.30	0.42	0.39	0.39	0.39
Total assets, Canadian GAAP [1], [3]	35,593,391	13,987,195	26,297,567	29,389,636	42,449,038
Total assets, U.S. GAAP[1], [3]	35,593,391	13,806,445	25,755,317	28,485,886	41,183,788
Shareholders' equity, Canadian GAAP[3]	31,366,458	9,453,084	23,476,340	26,773,217	40,756,556
Shareholders' equity, U.S. GAAP[3]	30,343,407	9,272,334	22,934,090	25,869,467	39,491,306
Cash dividends declared per share[4]	Nil	Nil	Nil	Nil	Nil
Weighted average number of common shares outstanding	49,370,175	41,369,515	40,428,825	36,346,266	32,804,540

Notes:

1) Subsequent to the acquisition of Oncolytics Biotech Inc. by SYNSORB in April 1999, we applied push down accounting. See note 2 to the audited financial statements for 2008.
2) Included in net loss and net loss per share is stock based compensation expense of $424,273 (2008 – $64,039; 2007 – $539,156; 2006 – $403,550; 2005 – $64,104).
3) We issued 17,524,211 common shares for net cash proceeds of $37,052,900 and 200,000 common shares for a $684,000 investment in British Canadian Biosciences Corp. (2008 – 2,650,000 commons shares for net cash proceeds of $3,421,309; 2007 – 4,660,000 common shares for net cash proceeds of $12,114,394; 2006 – 284,000 common shares for cash proceeds of $241,400; 2005 – 4,321,252 common shares for cash proceeds of $18,780,189).

4) We have not declared or paid any dividends since incorporation.

B. Capitalization and Indebtedness

Not Applicable

C. Reasons for the Offer and Use of Proceeds

Not Applicable

D. Risk Factors

Investment in shares of our common stock ("Common Shares") involves a degree of risk. These risks should be carefully considered before any investment decision is made. The following are some of the key risk factors generally associated with our business. However, the risks described below are not the only ones that we face. Additional risks not currently known to us, or that we currently deem immaterial, may also impair our business operations.

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;
- 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.

The U.S. FDA 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 possibly other regulatory authorities in other jurisdictions. 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 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 (**"**cGMP**"**) 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 contracted by us to adhere to additional manufacturing standards, even if not required by the FDA. Compliance with cGMP 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 cGMP requirements. If the manufacturing facilities contracted by us fail to comply with the cGMP 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. 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, but not limited to, 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.

The biotechnology industry is extremely competitive and we must successfully compete with larger companies with substantially greater resources.

Technological competition in the pharmaceutical industry is intense and we expect competition to increase. Other companies are conducting research on therapeutics involving the Ras pathway as well as other novel treatments or therapeutics for the treatment of cancer which may compete with our product. Many of these competitors are more established, benefit from greater name recognition and have substantially greater financial, technical and marketing resources than us. In addition, many of these competitors have significantly greater experience in undertaking research, preclinical studies and human clinical trials of new pharmaceutical products, obtaining regulatory approvals and manufacturing and marketing such products. In addition, there are several other companies and products with which we may compete from time to time, and which may have significantly better and larger resources than we do. Accordingly, our competitors may succeed in manufacturing and/or commercializing products

more rapidly or effectively, which could have a material adverse effect on our business, financial condition or results of operations.

We anticipate that we will face increased competition in the future as new products enter the market and advanced technologies become available. There can be no assurance that existing products or new products developed by our competitors will not be more effective, or be more effectively manufactured, marketed and sold, than any that may be developed or sold by us. Competitive products may render our products obsolete and uncompetitive prior to recovering research, development or commercialization expenses incurred with respect to any such products.

We rely on patents and proprietary rights to protect our technology.

Our success will depend, in part, on our ability to obtain patents, maintain trade secret protection and operate without infringing the rights of third parties. We have received Granted Patents in countries throughout the world, including the United States, Canada, Europe, and Japan. We file our Applications for Patent in the United States and under the PCT, allowing us to subsequently file in other jurisdictions. See "Narrative Description—Patent and Patent Application Summary". Our success will depend, in part, on our ability to obtain, enforce and maintain patent protection for our technology in Canada, the United States and other countries. We cannot be assured that patents will issue from any pending applications or that claims now or in the future, if any, allowed under issued patents will be sufficiently broad to protect our technology. In addition, no assurance can be given that any patents issued to, or licensed by us, will not be challenged, invalidated, infringed or circumvented, or that the rights granted thereunder will provide continuing competitive advantages to us.

The patent positions of pharmaceutical and biotechnology firms, including us, are generally uncertain and involve complex legal and factual questions. In addition, it is not known whether any of our current research endeavours will result in the issuance of patents in Canada, the United States, or elsewhere, or if any patents already issued will provide significant proprietary protection or will be circumvented or invalidated. Since patent applications in the United States and Canada may be maintained in secrecy until at least 18 months after filing of the original priority application, and since publication of discoveries in the scientific or patent literature tends to lag behind actual discoveries by several months, we cannot be certain that we or any licensor were the first to create inventions claimed by pending patent applications or that we or the licensor were the first to file patent applications for such inventions. Loss of patent protection could lead to generic competition for these products, and others in the future, which would materially and adversely affect our financial prospects for these products.

Similarly, since patent applications filed before November 29, 2000 in the United States may be maintained in secrecy until the patents issue or foreign counterparts, if any, publish, we cannot be certain that we or any licensor were the first creator of inventions covered by pending patent applications or that we or such licensor were the first to file patent applications for such inventions. There is no assurance that our patents, if issued, would be held valid or enforceable by a court or that a competitor's technology or product would be found to infringe such patents.

Accordingly, we may not be able to obtain and enforce effective patents to protect our proprietary rights from use by competitors. If other such parties obtain patents for certain information relied on by us in conducting our business, then we may be required to stop using, or pay to use, certain intellectual property, and as such, our competitive position and profitability could suffer as a result.

In addition, we may be required to obtain licenses under patents or other proprietary rights of third parties. No assurance can be given that any licenses required under such patents or proprietary rights will be available on terms acceptable to us. If we do not obtain such licenses, we could encounter delays in introducing one or more of our products to the market while we attempt to design around such patents, or we could find that the development, manufacture or sale of products requiring such licenses could be foreclosed. In addition, we could incur substantial costs in defending ourselves in suits brought against us on such patents or in suits in which our attempts to enforce our own patents against other parties.

Our products may fail or cause harm, subjecting us to product liability claims.

Use of our product during current clinical trials may entail risk of product liability. We maintain clinical trial liability insurance; however, it is possible this coverage may not provide full protection against all risks. Given the

scope and complexity of the clinical development process, the uncertainty of product liability litigation, and the shrinking capacity of insurance underwriters, it is not possible at this time to assess the adequacy of current clinical trial coverage, nor the ability to secure continuing coverage at the same level and at reasonable cost in the foreseeable future. While we carry, and intend to continue carrying amounts believed to be appropriate under the circumstances, it is not possible at this time to determine the adequacy of such coverage.

In addition, the sale and commercial use of our product entails risk of product liability. We currently do not carry any product liability insurance for this purpose. There can be no assurance that we will be able to obtain appropriate levels of product liability insurance prior to any sale of our pharmaceutical products. An inability to obtain insurance on economically feasible terms or to otherwise protect against potential product liability claims could inhibit or prevent the commercialization of products developed by us. The obligation to pay any product liability claim or a recall of a product could have a material adverse effect on our business, financial condition and future prospects.

We have limited manufacturing experience and intend to rely on third parties to commercially manufacture our products, if and when developed.

To date, we have relied upon a contract manufacturer to manufacture small quantities of REOLYSIN®. The manufacturer may encounter difficulties in scaling up production, including production yields, quality control and quality assurance. Only a limited number of manufacturers can supply therapeutic viruses and failure by the manufacturer to deliver the required quantities of REOLYSIN® on a timely basis at a commercially reasonable price may have a material adverse effect on us. We have completed a program for the development of a commercial process for manufacturing REOLYSIN® and have filed a number of patent applications related to the process. There can be no assurance that we will successfully obtain sufficient patent protection related to our manufacturing process.

New products may not be accepted by the medical community or consumers.

Our primary activity to date has been research and development and we have no experience in marketing or commercializing products. We will likely rely on third parties to market our products, assuming that they receive regulatory approvals. If we rely on third parties to market our products, the commercial success of such product may be outside of our control. Moreover, there can be no assurance that physicians, patients or the medical community will accept our product, even if it proves to be safe and effective and is approved for marketing by Health Canada, the FDA and other regulatory authorities. A failure to successfully market our product would have a material adverse effect on our revenue.

Our technologies may become obsolete.

The pharmaceutical industry is characterized by rapidly changing markets, technology, emerging industry standards and frequent introduction of new products. The introduction of new products embodying new technologies, including new manufacturing processes and the emergence of new industry standards may render our products obsolete, less competitive or less marketable. The process of developing our products is extremely complex and requires significant continuing development efforts and third party commitments. Our failure to develop new technologies and products and the obsolescence of existing technologies could adversely affect our business.

We may be unable to anticipate changes in our potential customer requirements that could make our existing technology obsolete. Our success will depend, in part, on our ability to continue to enhance our existing technologies, develop new technology that addresses the increasing sophistication and varied needs of the market, and respond to technological advances and emerging industry standards and practices on a timely and cost-effective basis. The development of our proprietary technology entails significant technical and business risks. We may not be successful in using our new technologies or exploiting our niche markets effectively or adapting our businesses to evolving customer or medical requirements or preferences or emerging industry standards.

We are highly dependent on third-party relationships for research and clinical trials.

We rely upon third party relationships for assistance in the conduct of research efforts, pre-clinical development and clinical trials, and manufacturing. In addition, we expect to rely on third parties to seek regulatory approvals for and

to market our product. Although we believe that our collaborative partners will have an economic motivation to commercialize our product included in any collaborative agreement, the amount and timing of resources diverted to these activities generally is expected to be controlled by the third party. Furthermore, if we cannot maintain these relationships, our business may suffer.

We have no operating revenues and a history of losses.

To date, we have not generated sufficient revenues to offset our research and development costs and, accordingly, have not generated positive cash flow or made an operating profit. As of December 31, 2009, we had an accumulated deficit of $118.8 million and we incurred net losses of $16.2 million, $17.6 million, and $16.0 million, for the years ended December 31, 2009, 2008, and 2007, respectively. We anticipate that we will continue to incur significant losses during 2009 and in the foreseeable future. We do not expect to reach profitability at least until after successful and profitable commercialization of one or more of our products. Even if one or more of our products are profitably commercialized, the initial losses incurred by us may never be recovered.

We may not be able to obtain third-party reimbursement for the cost of our product.

Uncertainty exists regarding the reimbursement status of newly-approved pharmaceutical products and reimbursement may not be available for REOLYSIN®. Any reimbursements granted may not be maintained or limits on reimbursements available from third-party payors may reduce the demand for, or negatively affect the price of, these products. If REOLYSIN® does not qualify for reimbursement, if reimbursement levels diminish, or if reimbursement is denied, our sales and profitability would be adversely affected.

Third-Party Risk

In the normal course of our business, we have entered into contractual arrangements with third parties which subject us to the risk that such parties may default on their obligations. Oncolytics may be exposed to third party credit risk through our contractual arrangements with our current contract manufacturer, the institutions which operate our clinical trials, or our contract research organizations and other parties. In the event such entities fail to meet their contractual obligations to Oncolytics, such failures could have a material adverse effect on Oncolytics and our operations.

We may need additional financing in the future to fund the research and development of our products and to meet our ongoing capital requirements.

As of December 31, 2009, we had cash and cash equivalents (including short-term investments) of $34.1 million and working capital of approximately $30.5 million. We anticipate that we will need additional financing in the future to fund research and development and to meet our ongoing capital requirements. The amount of future capital requirements will depend on many factors, including continued scientific progress in our drug discovery and development programs, progress in our pre-clinical and clinical evaluation of drug candidates, time and expense associated with filing, prosecuting and enforcing our patent claims and costs associated with obtaining regulatory approvals. In order to meet such capital requirements, we will consider contract fees, collaborative research and development arrangements, and additional public or private financings (including the incurrence of debt and the issuance of additional equity securities) to fund all or a part of particular programs as

well as potential partnering or licensing opportunities.

As a result of the weakened global economic situation, Oncolytics, along with all other pharmaceutical research and development entities, may have restricted access to capital, bank debt and equity, and is likely to face increased borrowing costs. Although our business and asset base have not changed, the lending capacity of all financial institutions has diminished and risk premiums have increased. As future operations will be financed out of funds generated from financing activities, our ability to do so is dependent on, among other factors, the overall state of capital markets and investor appetite for investments in the pharmaceutical industry and our securities in particular.

Should we elect to satisfy our cash commitments through the issuance of securities, by way of either private placement or public offering or otherwise, there can be no assurance that our efforts to raise such funding will be successful, or achieved on terms favourable to us or our existing shareholders. If adequate funds are not available

on terms favorable to us, we may have to reduce substantially or eliminate expenditures for research and development, testing, production and marketing of our proposed product, or obtain funds through arrangements with corporate partners that require us to relinquish rights to certain of our technologies or product. There can be no assurance that we will be able to raise additional capital if our current capital resources are exhausted.

The cost of director and officer liability insurance may increase substantially and may affect our ability to retain quality directors and officers.

We carry liability insurance on behalf of our directors and officers. Given a number of large director and officer liability insurance claims in the U.S. equity markets, director and officer liability insurance has become increasingly more expensive with increased restrictions. Consequently, there is no assurance that we will continue to be offered this insurance or be able to obtain adequate coverage. The inability to acquire the appropriate insurance coverage may limit our ability to attract and maintain directors and officers as required to conduct our business.

We are dependent on our key employees and collaborators.

Our ability to develop the product will depend, to a great extent, on our ability to attract and retain highly qualified scientific personnel and to develop and maintain relationships with leading research institutions. Competition for such personnel and relationships is intense. We are highly dependent on the principal members of our management staff as well as our advisors and collaborators, the loss of whose services might impede the achievement of development objectives. The persons working with us are affected by a number of influences outside of our control. The loss of key employees and/or key collaborators may affect the speed and success of product development.

Barbados 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 Barbados. It may not be possible to enforce court judgments obtained in Canada against Oncolytics Barbados in Barbados based on the civil liabilities provisions of applicable securities laws. In addition, there is some doubt as to whether the courts of Barbados would recognize or enforce judgments of Canadian 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.

We incur some of our expenses in foreign currencies and therefore we are exposed to foreign currency exchange rate fluctuations.

We incur some of our manufacturing, clinical, collaborative and consulting expenses in foreign currencies, primarily the U.S. dollar and the British pound ("GBP"). We are therefore exposed to foreign currency rate fluctuations. Also, as we expand to other foreign jurisdictions there may be an increase in our foreign exchange exposure.

We earn interest income on our excess cash reserves and are exposed to changes in interest rates.

We invest our excess cash reserves in investment vehicles that provide a rate of return with little risk to principal. As interest rates change the amount of interest income we earn will be directly impacted.

The Corporation may fail to achieve and maintain adequate internal control over financial reporting pursuant to the requirements of the Sarbanes-Oxley Act and equivalent Canadian legislation.

The Corporation documented and tested during its most recent fiscal year its internal control procedures in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act ("**SOX**") and equivalent Canadian legislation. SOX requires an annual assessment by management of the effectiveness of the Corporation's internal controls over financial reporting and an attestation report by the Corporation's independent auditors addressing this assessment. The Corporation may fail to achieve and maintain the adequacy of its internal controls over financial reporting as such standards are modified, supplemented, or amended from time to time, and the Corporation may not be able to ensure that it can conclude, on an ongoing basis, that it has effective internal controls over financial reporting in accordance with Section 404 of SOX. The Corporation's failure to satisfy the requirements of Section 404 of SOX on an ongoing, timely basis could result in the loss of investor confidence in the reliability of its financial statements, which in turn could harm the Corporation's business and negatively impact the trading price of the common shares or the market value of its other securities. In addition, any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Corporation's operating results or cause it to fail to meet its reporting obligations. Future acquisitions of companies, if any, may provide the Corporation with challenges in implementing the required processes, procedures and controls in its acquired operations. No evaluation can provide complete assurance that the Corporation's internal controls over financial reporting will detect or uncover all failures of persons within the Corporation to disclose material information otherwise required to be reported. The effectiveness of the Corporation's processes, procedures and controls could also be limited by simple errors or faulty judgments. In addition, if the Corporation expands, the challenges involved in implementing appropriate internal controls over financial reporting will increase and will require that the Corporation continue to improve its internal controls over financial reporting.

Because the Corporation is a Canadian corporation and the majority of its directors and officers are resident in Canada, it may be difficult for investors in the United States to enforce civil liabilities against the Corporation based solely upon the federal securities laws of the United States.

The Corporation is a Canadian corporation, with its principal place of business in Canada. A majority of the Corporation's directors and officers and some or all of the experts named in the registration statement to which this prospectus supplement relates are residents of Canada and a significant portion of the Corporation's assets and the assets of a majority of the Corporation's directors and officers and the experts named in this prospectus supplement are located outside the United States. Consequently, it may be difficult for U.S. investors to effect service of process within the United States upon the Corporation or its directors or officers or such experts who are not residents of the United States, or to realize in the United States upon judgments of courts of the United States predicated upon civil liabilities under the U.S. Securities Act of 1933, as amended. Investors should not assume that Canadian courts (1) would enforce judgments of U.S. courts obtained in actions against the Corporation or such directors, officers or experts predicated upon the civil liability provisions of the U.S. federal securities laws or the securities or "blue sky" laws of any state within the United States or (2) would enforce, in original actions, liabilities against the Corporation or such directors, officers or experts predicated upon the U.S. federal securities laws or any such state securities or "blue sky" laws. In addition, the protections afforded by Canadian securities laws may not be available to investors in the United States.

Possible "passive foreign investment company" status

Potential investors that are U.S. taxpayers should be aware that the Corporation believes that it qualified as a PFIC for the tax year ended December 31, 2009, and based on current business plans and financial projections, the Corporation anticipates that it may qualify as a PFIC for the subsequent taxable years. If the Corporation is or becomes a PFIC, any gain recognized on the sale of the Unit Shares, Warrants or Warrant Shares and any "excess distributions" (as specifically defined) paid on Unit Shares or Warrant Shares must be rateably allocated to each day in a U.S. taxpayer's holding period for the Unit Shares, Warrants or Warrant Shares. The amount of any such gain or excess distribution allocated to prior years of such U.S. taxpayer's holding period for the Unit Shares, Warrants or Warrant Shares generally will be subject to U.S. federal income tax at the highest tax rate applicable to ordinary income in each such prior year, and the U.S. taxpayer will be required to pay interest on the resulting tax liability for each such prior year, calculated as if such tax liability had been due in each such prior year.

The determination of whether the Corporation will be a PFIC for a taxable year depends, in part, on the application of complex U.S. federal income tax rules, which are subject to differing interpretations. In addition, whether the Corporation will be a PFIC for any taxable year

generally depends on its assets and income over the course of each

such taxable year and, as a result, cannot be predicted with certainty as of the date of this prospectus supplement. Accordingly, there can be no assurance that the IRS will not challenge the determination made by the Corporation concerning its PFIC status or that the Corporation will not be a PFIC for any taxable year. For a more detailed discussion see "Certain United States Federal Income Tax Considerations" below.

Our share price may be highly volatile.

Market prices for securities of biotechnology companies generally are volatile. This increases the risk of securities litigation. Factors such as announcements (publicly made or at scientific conferences) of technological innovations, new commercial products, patents, the development of proprietary rights, results of clinical trials, regulatory actions, publications, quarterly financial results, our financial position, public concern over the safety of biotechnology, future sales of shares by us or our current shareholders and other factors could have a significant effect on the market price and volatility of the common shares.

Potential dilution of present and prospective shareholdings.

In order to finance future operations and development efforts, the Company may raise funds through the issue of common shares or the issue of securities convertible into common shares. The Company cannot predict the size of future issues of common shares or the issue of securities convertible into common shares or the effect, if any, that future issues and sales of the Company's common shares will have on the market price of its common shares. Any transaction involving the issue of previously authorized but unissued shares, or securities convertible into shares, would result in dilution, possibly substantial, to present and prospective holders of shares.

The Company does not intend to pay cash dividends in the foreseeable future.

The Company has not declared or paid any dividends since its incorporation. The Company intends to retain earnings, if any, to finance the growth and development of its business and does not intend to pay cash dividends on the common shares in the foreseeable future. Any return on an investment in the common shares will come from the appreciation, if any, in the value of the common shares. The payment of future cash dividends, if any, will be reviewed periodically by the board of directors and will depend upon, among other things, conditions then existing including earnings, financial condition and capital requirements, restrictions in financing agreements, business opportunities and conditions and other factors.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

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

Our principal executive office is located at 210, 1167 Kensington Cres. NW, Calgary, Alberta, Canada, T2N 1X7, telephone (403) 670-7377. Our agent for service in the U.S. is DL Service, Inc. located at 1420 Fifth Avenue, Suite 3400, Seattle, Washington, 98101, telephone (206) 903-8800.

On July 1, 2008, we completed an internal reorganization to provide additional international flexibility and promote broadened opportunities for Oncolytics. Pursuant to the internal reorganization we transferred certain assets to our wholly-owned subsidiary, Oncolytics Biotech (Barbados) Inc. ("OBB"), in consideration for additional shares in the capital of OBB. 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 OBB permission to use certain other intellectual property rights not transferred by us to OBB. Concurrently with the asset transfer, the Corporation and OBB entered into a trust agreement pursuant to which we agreed to hold legal title to the transferred assets with beneficial title remaining with OBB.

As part of the internal reorganization, the Corporation and OBB also entered into a research and development agreement on July 1, 2008 pursuant to which we agreed to provide certain services to OBB, 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.

In December 2008, we incorporated a Delaware company, Oncolytics Biotech (U.S.) Inc. (“OBUS”) which is wholly owned by OBB. OBUS provides certain services to OBB including conducting research and development related to the transferred assets; coordinating clinical trials and the handling of data generated by such trials.

On March 2, 2009 we entered into an agreement to acquire an inactive private company ("PrivateCo"), pursuant to a plan of arrangement under the Business Corporations Act (Alberta) (the "Arrangement"). PrivateCo does not actively carry on any business operations, has accumulated tax losses from its previous development business, and is expected to have approximately $2.3 million in net cash available at the closing of the transaction.

Under the terms of the Arrangement, we issued common shares of Oncolytics at an exchange ratio calculated based upon an agreed premium to PrivateCo's net cash per share at closing and using an ascribed price per common share of Oncolytics of $1.69 (which is based on the 20 day volume weighted average trading price of Oncolytics shares on the Toronto Stock Exchange up to and including March 2, 2009). The acquisition closed in April 2009.

A description of our principal capital expenditures and divestitures and a description of acquisitions of material assets can be found in our MD&A and in the notes to our financial statements included elsewhere in this annual report.

B. Business Overview

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

Our Business

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 30% 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 the product 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, 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.

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

Scientific Background

The Ras protein is a key regulator of cell growth and differentiation. It transmits signals from the cell's surface, via growth factor receptors, to downstream elements, which are in turn relayed to the nucleus. This transmission of signals from the cell surface to the cell's nucleus is collectively referred to as "signal transduction." The transmission of these signals results in cell growth, division, and in some instances cellular differentiation. In normal cells, cell growth occurs only in the presence of factors stimulating the cells to grow. Mutations in Ras itself, or any of the elements along the Ras pathway, often lead to activation of the pathway in the absence of the appropriate growth stimuli, leading to the uncontrolled growth of these cells and ultimately to the development of a cancerous state. In fact, approximately 30% of all cancers are known to be due to mutations in Ras itself. The frequency of these Ras mutations, as well as their etiology in a given tumour is, however, tissue specific. Activating mutations in Ras are found in many types of human malignancies but are highly represented in pancreatic (90%), sporadic colorectal (50%), lung carcinomas (40%), and myeloid leukemia (30%). Because Ras is a regulator of key mitogenic signals, aberrant function of upstream elements such as receptor tyrosine kinases (RTKs) can also result in Ras activation in the absence of mutations in Ras itself. Indeed, over-expression of these RTKs such as HER2/neu/ErbB2 or the epidermal growth factor receptor is common in breast cancer (25-30%), and over-expression of the platelet-derived growth factor receptor (“PDGFR”) is common in glioblastomas and gliomas, all of which are tumour types in which Ras mutations are relatively rare. Although activating mutations of Ras itself are thought to occur in only about 30% of all tumours, it is expected that approximately two-thirds of all tumours have activated Ras signaling pathways as a result of mutations in genes that lie upstream of Ras. With this in mind, Ras becomes a significant therapeutic target in oncology.

All available scientific evidence developed or reviewed by us to date supports the premise that the reovirus only actively infects and replicates in cells with an activated Ras pathway. This naturally occurring virus is believed to cause only mild infections of the respiratory and gastrointestinal tract and in general, reovirus infections in humans are asymptomatic and usually sub-clinical. Research has indicated this virus replicates in, and therefore kills, only cancer cells (i.e. cancer cells with an activated Ras pathway), but does not replicate in normal cells. It has been demonstrated that reovirus replication is restricted in "normal" cells due to the activation of the double stranded RNA-activated protein kinase (“PKR”). PKR is a crucial element in protecting cells from reovirus infection and is capable of blocking viral protein translation. Activated Ras (or an activated element of the Ras pathway) prevents PKR activation, and thus allows viral replication to ensue only in this subset of cancer cells. To prove that reovirus could be used as a potential cancer therapeutic, a number of animal models were developed. Experiments using this virus to treat mouse tumours, expanded animal models as well as human brain, breast, and prostate tumours implanted in immuno-compromised mice have yielded promising results. In animals where tumour regression was

noted, a single injection of reovirus is often enough to cause complete tumour regression. More importantly, it was demonstrated that this treatment is effective in causing tumour regression in immune competent animals. We believe that the nature of this virus, combined with its selective replication makes it an attractive candidate as a cancer therapy.

We also believe that this research may have broad utility in the treatment of tumours with an activated Ras pathway as well as a potential use as an adjuvant therapy following surgical tumour resection or as an adjuvant therapy to conventional chemotherapeutic or radiation therapies.

The Potential Cancer Product

Cancer is a group of related diseases characterized by the aberrant or uncontrolled growth of cells and the spread of these cells to other sites in the body. These cancer cells eventually accumulate and form tumours that can disrupt and impinge on normal tissue and organ function. In many instances, cells from these tumours can break away from the original tumour and travel through the body to form new tumours through a process referred to as metastasis.

Our cancer product is a potential therapeutic for tumours possessing an activated Ras pathway. In tumour cells with this type of activation, the virus is cytotoxic but may have no effect on the surrounding normal tissue. Activating mutations of Ras are believed to account for approximately 30% of all human tumours directly. It is also possible to activate Ras through mutation of proteins that control its activity rather than through direct mutations of Ras itself. This suggests that approximately two thirds of tumours may respond to this treatment.

Clinical Trial Program

We are directing a broad clinical trial program with the objective of developing REOLYSIN® as a human cancer therapeutic. The clinical program includes clinical trials which we sponsor directly along with clinical trials that are being sponsored by the U.S. National Cancer Institute (“NCI”), the University of Leeds and the Cancer Therapy & Research Center at the University of Texas Health Center in San Antonio (“CTRC”). Our clinical trial program includes human trials using REOLYSIN® alone, and in combination with radiation and chemotherapy, and delivered via local administration and/or intravenous administration.

Clinical Trial Chart

The following chart shows our clinical trials:

Trial number	Delivery Method	Trial Program and Cancer Indication	Location	Status
REO 020	Intravenous administration in combination with paclitaxel and carboplatin (sponsored by the CTRC)	Phase II metastatic melanoma	United States	Ongoing
REO 016	Intravenous administration in combination with paclitaxel and carboplatin	Phase II non-small cell lung with K-RAS or EGFR-activated tumours	United States	Ongoing
REO 015	Intravenous administration in combination with paclitaxel and carboplatin	Phase II head and neck	United States	Ongoing

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Trial number	Delivery Method	Trial Program and Cancer Indication	Location	Status
REO 014	Intravenous administration monotherapy	Phase II sarcoma	United States	Complete
REO 013	Intravenous administration monotherapy (sponsored by University of Leeds)	Translational metastatic colorectal	United Kingdom	Ongoing
NCI Trial	Intravenous administration monotherapy (NCI)	Phase II melanoma	United States	Ongoing
NCI Trial	Intravenous and intraperitoneal administration monotherapy (NCI)	Phase I/II ovarian	United States	Ongoing
REO 012	Intravenous administration in combination with cyclophosphamide	Phase I/II pancreatic, lung, ovarian	United Kingdom	Ongoing
REO 011	Intravenous administration in combination with paclitaxel and carboplatin	Phase I/II melanoma, lung, ovarian	United Kingdom	Complete
REO 010	Intravenous administration in combination with docetaxel	Phase I/II bladder, prostate, lung, upper gastro-intestinal	United Kingdom	Complete
REO 009	Intravenous administration in combination with gemcitabine	Phase I/II pancreatic, lung, ovarian	United Kingdom	Complete
REO 008	Local therapy in combination with radiation	Phase II various metastatic tumours, including head & neck	United Kingdom	Complete
REO 007	Infusion monotherapy	Phase I/II recurrent malignant gliomas	United States	Ongoing
REO 006	Local therapy in combination with radiation	Phase I various metastatic tumours	United Kingdom	Complete
REO 005	Intravenous administration	Phase I various metastatic tumours	United Kingdom	Complete

Trial number	Delivery Method	Trial Program and Cancer Indication	Location	Status
	monotherapy			
REO 004	Intravenous administration monotherapy	Phase I various metastatic tumours	United States	Complete
REO 003	Local monotherapy	Phase I recurrent malignant gliomas	Canada	Complete
REO 002	Local monotherapy	T2 prostate cancer	Canada	Complete
REO 001	Local monotherapy	Phase I trial for various subcutaneous tumours	Canada	Complete

Patents and Trade Secrets

The patent positions and proprietary rights of pharmaceutical and biotechnology firms, including us, are generally uncertain and involve complex legal and factual questions. We believe there will continue to be significant litigation in the industry regarding patent and other intellectual property rights.

Currently, we have over 200 issued patents including 33 issued U.S. patents. We also have over 180 patent applications filed in the U.S., Canada, and other jurisdictions, but we cannot be certain whether any given patent application filed by us will result in the issuance of a patent or if any given patent issued to us will later be challenged and invalidated. Nor can we be certain whether any given patent that may be issued to us will provide any significant proprietary protection to our product and business.

Litigation or other proceedings may also be necessary to enforce or defend our proprietary rights and patents. To determine who was first to make an invention claimed in a United States patent application or patent and thus be entitled to a patent, the United States Patent and Trademark Office, or USPTO, can declare an interference proceeding. In Europe, patents can be revoked through opposition or nullity proceedings. In the United States patents may be revoked or invalidated in court actions or in re-examination proceedings in the USPTO. Such litigation or proceedings could result in substantial cost or distraction to us, or result in an adverse decision as to our or our licensors' patent applications and patents.

Our commercial success depends, in part, on not infringing the patents or proprietary rights of others and not breaching licenses granted that may be granted to us. Competitors may have filed patent applications and obtained patents and may in the future file patent applications and obtain patents relevant to our product and technologies. We are not aware of competing intellectual property relating to our REOLYSIN® project. While we currently believe that we have the necessary freedom to operate in these areas, there can be no assurance that others will not challenge our position in the future. Litigation to defend our position could be costly and time consuming. We also cannot be certain that we will be successful. We may be required to obtain a license from the prevailing party in order to continue the portion of our business that relates to the proceeding. We may also be required to obtain licenses to other third-party technologies necessary in order to market our products. Such licenses may not be available to us on acceptable terms or on any terms and we may have to discontinue that portion of our business. Any failure to license any technologies required to commercialize our technologies or products at reasonable cost may have a material adverse effect on our business, results of operations, financial condition, cash flow and future prospects. We are not currently involved in any litigation concerning our competitors' patent applications and patents. We may be involved in such litigation in the future.

We also rely on unpatented trade secrets and improvements, unpatented know-how and continuing technological innovation to develop and maintain our competitive position. No assurance can be given that others will not independently develop substantially equivalent proprietary information and techniques, or otherwise gain access to

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our trade secrets or disclose such technology, or that we can meaningfully protect our rights to our unpatented trade secrets.

We require our employees and consultants to execute confidentiality agreements upon the commencement of employment and consulting relationships with us. These agreements provide that all confidential information developed by or made known to an individual during the course of the employment or consulting relationship generally must be kept confidential. In the case of employees, the agreements provide that all inventions conceived by the individual, while employed by us, relating to our business are our exclusive property. While we have implemented reasonable business measurements to protect confidential information, these agreements may not provide meaningful protection for our trade secrets in the event of unauthorized use or disclosure of such information.

Business Strategy

Our business strategy is to develop and market REOLYSIN® in an effective and timely manner, and access additional technologies at a time and in a manner that we believe is best for our development. We intend to achieve our business strategy by focusing on these key areas:

- Develop REOLYSIN® by continuing to progress the product through our clinical trial program assessing the safety and efficacy in human subjects;
- Establish collaborations with experts to assist us with scientific and clinical developments of this new potential pharmaceutical product;
- Implement strategic alliances with selected pharmaceutical and biotechnology companies and selected laboratories, at a time and in a manner where such alliances may complement and expand our research and development efforts on the product and provide sales and marketing capabilities;
- Utilize our broadening patent base and collaborator network as a mechanism to meet our strategic objectives; and
- Develop relationships with companies that could be instrumental in assisting us to access other innovative therapeutics.

Our business strategy is based on attaining a number of commercial objectives, which, in turn, are supported by a number of product development goals. Our new product development presently being conducted is primarily of a research and development nature. In the context of this Annual Report, statements of our "belief" are based primarily upon our results derived to date from our research and development program with animals, and early stage human trials, and upon which we believe that 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 trials, whether a new therapeutic will ultimately prove to be safe and effective in humans. There are no assurances that the particular result expected by us will occur.

At this time we do not intend to become a fully integrated pharmaceutical company with substantial in-house research and development, marketing and distribution or manufacturing capabilities. We are pursuing a strategy of establishing relationships with larger companies as strategic partners. We intend to partner or joint venture with larger pharmaceutical companies that have existing and relevant marketing capability for our products. It is anticipated that future clinical development into large international or pivotal trials would generally occur in conjunction with a strategic partner or partners, who would contribute expertise and financial assistance. In exchange for certain product rights and commitments to market our products, the strategic partners would be expected to share in gross proceeds from the sale of our product or products and potentially share in various market or manufacturing opportunities. The proceeds generated from partnering or joint venturing projects are expected to be distributed on the basis of relative risk taken and resources contributed by each party to the partnership or joint venture.

Regulatory Requirements

The development of new pharmaceuticals is strongly influenced by a country's regulatory environment. The drug approval process in Canada is regulated by Health Canada. The primary regulatory body in the United States is the FDA and in the UK is the MHRA. Similar processes are conducted in other countries by equivalent regulatory bodies. Regulations in each jurisdiction require the licensing of manufacturing facilities and mandate strict research and product testing standards. Companies must establish the safety and efficacy of their products, comply with current Good Manufacturing Practices and submit marketing materials before being allowed to market pharmaceutical products. While we plan to pursue or support the pursuit of the approval of our product, success in acquiring regulatory approval for any product is not assured.

In order to market our pharmaceutical product in Canada, the United States, Europe and other jurisdictions, we must successfully meet the requirements of those jurisdictions. The requirements of the Appropriate Regulatory Authority will generally include the following stages as part of the regulatory process:

- ***Pre-Pharmacological Studies***- Pre-Pharmacological studies involve extensive testing on laboratory animals to determine if a potential therapeutic product has utility in an *in vivo* disease model and has any adverse toxicology in a disease model.
- ***Investigational New Drug Application*** - An Investigational New Drug ("IND") Submission, or the equivalent, must be submitted to the appropriate regulatory authority prior to conducting Pharmacological Studies.
- ***Pharmacological Studies*****(or Phase I Clinical Trials) - Pharmacological studies are designed to assess the potential harmful or other side effects that an individual receiving the therapeutic compound may experience. These studies, usually short in duration, are often conducted with healthy volunteers or actual patients and use up to the maximum expected therapeutic dose.**
- ***Therapeutic Studies*****(or Phase II and III Clinical Trials) - Therapeutic studies are designed primarily to determine the appropriate manner for administering a drug to produce a preventive action or a significant beneficial effect against a disease. These studies are conducted using actual patients with the condition that the therapeutic is designed to remedy.**
- Prior to initiating these studies, the organization sponsoring the program is required to satisfy a number of requirements via the submission of documentation to support the approval for a clinical trial.
- ***New Drug Submission*** - After all three phases of a clinical trial have been completed, the results are submitted with the original IND Submission to the appropriate regulatory authority for marketing approval. Once marketing approval is granted, the product is approved for commercial sales.

Marketing Approvals

The results of the preclinical and clinical testing, together with manufacturing and controls information, are submitted to regulatory agencies in order to obtain approval to commence commercial sales. In responding to such an application, regulatory agencies may grant marketing approval, request additional information or further research, or deny the application if they determine that the application does not satisfy their regulatory approval criteria. Approval for a pharmaceutical or biologic product may not be granted on a timely basis, if at all, or if granted may not cover all the clinical indications for which approval is sought, or may contain significant limitations in the form of warnings, precautions or contraindications with respect to conditions of use.

Satisfaction of pre-market approval requirements for new drugs and biologics typically takes several years, and the actual time required may vary substantially based upon the type, complexity and novelty of the product or targeted disease. Government regulation may delay or prevent marketing of potential products for a considerable period of time and impose costly procedures upon our activities. Success in early stage clinical trials or with prior versions of products does not assure success in later stage clinical trials. Data obtained from clinical activities are not always conclusive and may be susceptible to varying interpretations that could delay, limit or prevent regulatory approval.

Post-Marketing Regulations

Once approved, regulatory agencies may withdraw the product approval if compliance with pre- and/or post-marketing regulatory standards is not maintained or if problems occur after the product reaches the marketplace. In addition, they may require post-marketing studies, referred to as Phase 4 studies, to monitor the effect of an approved product, and may limit further marketing of the product based on the results of these post-market studies. The FDA and other foreign regulatory agencies have broad post-market regulatory and enforcement powers, including the ability to levy fines and penalties, suspend or delay issuance of approvals, seize or recall products, or withdraw approvals.

Manufacturing Regulations

We use contract toll manufacturers to produce REOLYSIN®. Our toll manufacturers are subject to periodic inspection by the FDA, the United States Drug Enforcement Administration, or DEA, and other domestic and foreign authorities where applicable, and must comply with cGMP regulations. Manufacturers of biologics also must comply with general biological product standards. Failure to comply with the statutory and regulatory requirements subjects the manufacturer to possible legal or regulatory action, such as suspension of manufacturing, seizure of product, or mandatory or voluntary recall of a product. Adverse experiences with the product must be reported to the FDA and foreign agencies and could result in the imposition of market restrictions through labeling changes or in product removal. Product approvals may be withdrawn if compliance with regulatory requirements is not maintained or if problems concerning safety or efficacy of the product occur following approval.

Advertising and Promotion Regulations

With respect to both pre- and post-market product advertising and promotion, the FDA and similar foreign agencies impose a number of complex regulations on entities that advertise and promote pharmaceuticals and biologics, which include, among other things, standards and regulations relating to direct-to-consumer advertising, off-label promotion, industry sponsored scientific and educational activities, and promotional activities involving the Internet. These agencies have very broad enforcement authority and failure to abide by these regulations can result in penalties including the issuance of a warning letter directing the entity to correct deviations from requisite standards, a requirement that future advertising and promotional materials be pre-cleared by the FDA or relevant foreign agencies, and foreign, state and federal civil and criminal investigations and prosecutions.

Other Government Regulations

We are subject to various laws and regulations regarding laboratory practices, the experimental use of animals, and the use and disposal of hazardous or potentially hazardous substances in connection with our research. In each of these areas, as above, the government has broad regulatory and enforcement powers, including the ability to levy fines and civil penalties, suspend or delay issuance of approvals, seize or recall products, and withdraw approvals, any one or more of which could have a material adverse effect upon us.

Market and Competition

According to estimates for 2009 from the American Cancer Society, 1.48 million Americans are expected to be diagnosed with cancer in the year, and 562,000 Americans are forecast to die of cancer. In the United States cancer accounts for 25% of all deaths, second only to heart disease. In the United States, the relative lifetime risk of a male developing cancer is 1 in 2, while for women, this risk is 1 in 3.

The costs of this disease state are also significant. In the United States, the National Institute of Health estimates that the overall annual costs for cancer treatment are $228.1 billion. Of this figure, $93.2 billion can be attributed to direct patient costs.

It has been estimated that approximately 30% of all tumours are a result of activating mutations of Ras itself. Since Ras can be activated by mechanisms other than direct mutations it is believed that the number of tumours with activated Ras (either through direct activating mutation or mutation or over-expression of elements upstream of Ras) is approximately two thirds.

We face substantial competition in the development of products for cancer and other diseases. This competition from other manufacturers of the same types of products and from manufacturers of different types of products designed for the same uses is expected to continue in both U.S. and international markets. Oncolytic virus therapies, our primary focus area, are rapidly evolving areas in the biotechnology industry and are expected to undergo many changes in the coming years as a result of technological advances. We are currently aware of a number of groups that are developing oncolytic virus therapies including early-stage and established biotechnology companies, pharmaceutical companies, academic institutions, government agencies and research institutions. We face competition from all of these groups in areas such as recruiting employees, acquiring technologies that might enhance our ability to commercialize products, establishing relationships with certain research and academic institutions, enrolling patients in clinical trials and seeking program partnerships and collaborations with larger pharmaceutical companies. It is possible that our competitors could achieve earlier market commercialization, could have superior patent protection, or could have safer, more effective or more cost-effective products. These factors could render our potential products less competitive, which could adversely affect our business.

Product Marketing Strategy

The markets for the cancer product being developed by us may be large and could require substantial sales and marketing capability. Before or upon successful completion of the development of a cancer product, we intend to enter into one or more strategic partnerships or other collaborative arrangements with a pharmaceutical company or other company with marketing and distribution expertise to address this need. If necessary, we will establish arrangements with various partners for different geographical areas or specific applications at various times in the development process. Our management and consultants have relevant experience with the partnering process.

Seasonality of Business

Our results of operations have not been materially impacted by seasonality.

C. Organizational Structure

On December 31, 2009, we had three wholly-owned subsidiaries; Oncolytics Biotech (Barbados) Inc., a Barbados Company, and Oncolytics Biotech (US) Inc., a Delaware corporation and Valens Pharma Ltd.

D. Property, Plants and Equipment

We currently lease our head office in Calgary, Alberta, Canada. We do not own or lease any other office space, manufacturing facilities or equipment and do not have any current material plans to construct or acquire any facilities.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion contains forward-looking statements, including our belief as to the potential of REOLYSIN®, a therapeutic reovirus, as a cancer therapeutic and our expectations as to the success of our research and development and manufacturing programs in 2010 and beyond, future financial position, business strategy and plans for future operations, and statements that are not historical facts, involve known and unknown risks and uncertainties, which could cause our actual results to differ materially from those in the forward-looking statements. See *"Cautionary Note Regarding Forward-Looking Statements"*.

With respect to the forward-looking statements made within this MD&A, we have made numerous assumptions regarding among other things: our ability to obtain financing to fund our development program, our ability to receive regulatory approval to commence enrollment in our clinical trial program, the final results of our co-therapy

clinical trials, our ability to maintain our supply of REOLYSIN® and future expense levels being within our current expectations. Investors are cautioned against placing undue reliance on forward-looking statements. We do not undertake to update these forward-looking statements except as required by applicable law.

A. Operation Results

Please see our 2009 Management Discussion and Analysis filed herewith as Exhibit 99.2 and which is incorporated herein by reference.

B. Liquidity and Capital Resources

Please see our 2009 Management Discussion and Analysis filed herewith as Exhibit 99.2 and which is incorporated herein by reference.

C. Research and Development, Patents, and Licenses, etc.

Please see the disclosure in Item 4. Information on the Company B. Business overview for information on the Company's research and development policies.

D. Trend Information

It is important to note that historical patterns of expenditures cannot be taken as an indication of future expenditures. The amount and timing of expenditures and availability of capital resources vary substantially from period to period, depending on the level of research and development activity being undertaken at any one time and the availability of funding from investors and prospective commercial partners. Prior to 2009, our level of expenditures increased due to our expanded clinical trial and manufacturing programs. In 2009, our overall expenditures were reduced as we completed our Phase II clinical trial program and prepared for the commencement of our Phase III program that was ultimately approved in October 2009. We expect our expenditures to continue to increase in 2010 as our clinical program expanded to include a Phase III trial and we will incur manufacturing costs to supply this clinical program.

Except as disclosed elsewhere in our annual report, we know of no trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on our liquidity or capital resources or that would cause reported financial information not necessarily to be indicative of future operating results or financial conditions.

E. Off-Balance Sheet Arrangements

As at December 31, 2009, we have not entered into any off-balance sheet arrangements.

F. Tabular Disclosure of Contractual Obligations

We have the following contractual obligations as at December 31, 2009:

Contractual Obligations	**Payments Due by Period**				
	Total	**Less than 1 year**	**1 -3 years**	**4 – 5 years**	**After 5 years**
	$	**$**	**$**	**$**	**$**
Alberta Heritage Foundation[1]	150,000	—	—	—	150,000
Capital lease obligations	Nil	—	—	—	—
Operating leases [2]	126,693	89,430	37,263	—	—
Purchase obligations	650,000	650,000	—	—	—
Other long term obligations	Nil	—	—	—	—
Total contractual obligations	926,693	739,430	37,263	—	150,000

Note:

(1) Our Alberta Heritage Foundation obligation requires repayments upon the realization of sales (see note 7 of our audited 2009 consolidated financial statements).
(2) Our operating leases are comprised of our office lease and exclude our portion of operating costs.

We intend to fund our capital expenditure requirements and commitments with existing working capital.

G. Safe Harbor

We seek safe harbor for our forward-looking statements contained in Items 5.E and F. See "*Cautionary Note Regarding Forward-Looking Statements*".

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

The following table sets forth the names and municipalities of residence of all our directors and officers as at the date hereof, as well as the positions and offices held by such persons and their principal occupations.

Name and Municipality of Residence	Position with the Corporation	Principal Occupation	Director of the Company Since
Bradley G. Thompson Ph.D[2] *Calgary, Alberta*	Chief Executive Officer and Chairman of the Board	Chairman of the Board, President and Chief Executive Officer of Oncolytics since April 1999.	April 21, 1999
Douglas A. Ball C.A. *Calgary, Alberta*	Chief Financial Officer and Director	Chief Financial Officer of the Corporation since May 2000. Prior thereto, the Vice President, Finance and Chief Financial Officer of SYNSORB since June 1997. Prior to this, he was the Vice President, Finance and Administration and Chief Financial Officer of ECL Group of Companies Ltd. Mr. Ball held this position from December 1995 until May 1997. Prior to ECL, he was Controller and then Vice President and Controller of Canadian Airlines International Ltd. from June 1993 until August 1995.	April 21, 1999
William A. Cochrane, OC, M.D. [2],[3] Calgary, Alberta	Director	President of W.A. Cochrane & Associates, Inc. (a consulting company) since 1989 and Chairman of Resverlogix Corp. (a public biopharmaceutical company) and Director of Immunovaccine Inc. Dr. Cochrane was formerly Chairman of QSV Biologics Ltd. (biologics contract manufacturer) from 2003 to 2009 and was a director of Sernova Corp. from 2005 to 2008, and a former chairman of University Technologies International Inc. (UTI) at the University of Calgary. Dr. Cochrane is an Officer of the Order of Canada and a 2002 recipient of the Queens Golden Jubilee Medal. Dr. Cochrane also served as the Deputy Minister of Health Services for the Province of Alberta from 1973 to 1974 and President of the University of Calgary from 1974 to 1978.	October 31, 2002
Matthew C. Coffey Ph.D. *Calgary, Alberta*	Chief Operating Officer	Chief Operating Officer of the Corporation since December 2008. Chief Scientific Officer of the Corporation from December 2004 to December 2008, Vice-President of Product Development from July 1999 to December 2004 and Chief Financial Officer from September 1999 to May 2000.	N/A
George M. Gill, M.D. Washington, D.C.	Senior Vice President, Clinical and Regulatory Affairs	Dr. Gill has been a consultant in clinical research and regulatory affairs to the pharmaceutical and biotechnology industries since he retired from Ligand Pharmaceuticals in 1999. During his 38 years in the industry, he also served in senior	N/A

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Name and Municipality of Residence	Position with the Corporation	Principal Occupation	Director of the Company Since
		executive positions with ICI Pharmaceuticals (now AstraZeneca), Bristol-Myers Squibb, and Hoffmann-La Roche. Dr. Gill holds a B.Sc. in chemistry from Dickinson College in Pennsylvania and an M.D. from the School of Medicine of the University of Pennsylvania in Philadelphia.	
Robert B. Schultz, F.C.A. (1), (4) *Toronto, Ontario*	Lead Director	Former Chairman and Director of Rockwater Capital Corporation, formerly McCarvill Corporation (a financial services company) from 2001 to 2007. Chairman and Chief Executive Officer of Merrill Lynch Canada from August 1998 until his retirement on May 1, 2000. Prior to this appointment, Mr. Schultz was Chief Executive Officer at Midland Walwyn since 1990. Since joining the investment industry in 1971, Mr. Schultz has held a variety of senior positions, and has participated on various industry-related boards and committees including Director and Chairman of the Investment Dealers Association of Canada.	June 30, 2000
Fred A. Stewart, Q.C.[(1)(2)], *Calgary, Alberta*	Director	President of Fred Stewart & Associates Inc., consultants in technology commercialization since 1996. Mr Stewart holds a Commerce degree from the University of Saskatchewan and a law degree from the University of Toronto. He practised corporate/commercial law for 20 years in Calgary. He subsequently served as a Member of the Alberta Legislative Assembly, and during two terms from 1986 to 1993, he served as Minister of Technology, Research and Telecommunications, member of the Priorities Committee and Government House Leader. Mr Stewart has served in governance positions with a number of organizations in the technology sector, including BioAlberta.	August 27, 1999
J. Mark Lievonen, F.C.A.[(3)] *Markham, Ontario*	Director	President of Sanofi Pasteur Limited, a vaccine development, manufacturing and marketing company, since October 1998 and holding various positions with Sanofi Pasteur Limited and its predecessors since 1983. Mr. Lievonen currently serves on a number of industry and community boards and councils including, the Ontario Institute for Cancer Research and York University, and is a past Chair of BIOTECanada and the Ontario Genomics Institute. He was the recipient of a Queen's Golden Jubilee Medallion in 2002 and was named a Chevalier de l'Ordre National de Mérite by	April 5, 2004

Name and Municipality of Residence	Position with the Corporation	Principal Occupation	Director of the Company Since
		the government of France in 2007.	
Karl Mettinger, M.D., Ph.D *Berkeley, CA*	Chief Medical Officer	Dr. Mettinger has been involved in clinical and regulatory affairs with various pharmaceutical companies since 1985. Prior to joining Oncolytics, he was Senior Vice President and Chief Medical Officer with SuperGen Inc. Prior to that, he was Executive Director, Clinical Research at IVAX/Baker Norton, the new drug subsidiary of IVAX Corporation. He began his career in the industry as a Medical Director with KABI in Sweden. Dr. Mettinger holds an MD from the University of Lund in Sweden and a PhD (hematology/stroke) from the Karolinska Institute/Karolinska Hospital in Stockholm, Sweden, where he was a physician and an Associate Professor. He has overseen the global development and approval of a number of products including several in oncology.	N/A
Jim Dinning[(1)] Calgary, Alberta	Director	Chairman of Western Financial Group since September 2004. Mr. Dinning was Executive Vice President of TransAlta Corporation (power generation and wholesale marketing company) from 1997 to 2004 and held senior positions when serving as an Alberta MLA from 1986 to 1997, including a term as Provincial Treasurer. Mr. Dinning is the Chair of Export Development Canada, the Chairman of Canada West Foundation. and Director of Russel Metals, as well as other public and private companies. He is also Chair of Canada West Foundation.	March 24, 2004
Ger van Amersfoort,[(2)] *Oakville, Ont*	Director	President and Chief Executive Officer of Novartis Canada, a pharmaceutical company with in excess of $1 billion in annual sales and a workforce of 1,500, until his retirement in 2001. Before joining Novartis, he was President and Chief Executive Officer of the U.K. SmithKline Beecham operations from 1997 until managing the merger with Novartis in 1999. From 1990 to 1997, Mr. van Amersfoort headed up SmithKline Beecham operations in Canada as President and Chief Executive Officer. Prior to that, he held managing director positions with Beecham and The Boots Company, and sales positions with Bristol Myers in Holland. He is a recipient of the Paul Harris Medal and the Commemorative Medal of the Queen for outstanding services to the community. He has served on the Board of the Pharmaceutical Manufacturers Association of Canada (now Rx and D) for more than nine years, serving as chairman in 1996.	June 15, 2006

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Name and Municipality of Residence	Position with the Corporation	Principal Occupation	Director of the Company Since
Ed Levy, Ph.D, [3] *Lund, BC*	Director	Adjunct professor at the W. Maurice Young Centre for Applied Ethics at the University of British Columbia since retiring from QLT Inc. in late 2002. From 1988 to 2002, Dr. Levy was with Vancouver-based biotechnology company QLT Inc., most recently as Senior Vice President from 1998. In these roles, he was primarily responsible for negotiating and managing QLT's strategic alliances, led strategic planning and oversaw the company's intellectual property. Dr. Levy served on the board of BIOTECanada from 1999-2002, and he has served on the boards of several technology companies and not-for-profits. Dr. Levy holds a Ph.D. in the History and Philosophy of Science from Indiana University and taught philosophy of science at UBC from 1967-1988.	May 17, 2006
Mary Ann Dillahunty, JD, MBA *Half Moon Bay, CA*	Vice President, Intellectual Property	Ms. Dillahunty was a principal in the law firm of Fish & Richardson, a leading intellectual property firm in the U.S. In 1992, she joined the law firm of Burns, Doane, Swecker & Mathis (now part of Buchanan Ingersoll & Rooney), and subsequently became a partner in the firm. During 1996-1997, Ms. Dillahunty held the position of patent counsel to the Implant Division of ALZA Corporation. Before joining Burns Doane, she was a patent agent and law clerk with the law firm of Heller, Ehrman, White & McAuliffe. Prior to focusing her career on patent law, Ms. Dillahunty held numerous positions in the biotechnology, pharmaceutical and medical device industries, including responsibilities in regulatory affairs and research science. Ms. Dillahunty holds a B.S. in Microbiology from Michigan State University, an MBA from George Washington University, and a JD degree from Stanford Law School.	N/A

Notes:

1) These persons are members of the Audit Committee. Mr. Stewart is the Chair of the Audit Committee.
2) These persons are members of the Compensation Committee. Mr. Stewart is the Chair of the Compensation Committee.
3) These persons are members of the Corporate Governance and Nominating Committee. Mr. Lievonen is the Chair of the Corporate Governance and Nominating Committee.
4) As Lead Director, Mr. Schultz is an ex-officio member of the Compensation and Nominating Committees.

As at the date hereof, the directors and senior officers as a group beneficially owned, directly or indirectly, 1,080,151 of our common shares, representing 1.8% of the issued and outstanding common shares.

Certain of our directors are associated with other companies, which may give rise to conflicts of interest. In accordance with theABCA, directors who have a material interest in any person who is a party to a material contract or a proposed material contract with us are required, subject to certain exceptions, to disclose that interest and abstain from voting on any resolution to approve that contract. In addition, the directors are required to act honestly and in good faith with a view to the best interests of Oncolytics Biotech Inc.

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None of our directors have been a director or officer of a company that went bankrupt in the last 10 years except for Dr. William Cochrane who was a director of QSV Biologics ("QSV"), a private company. QSV was a private contract manufacturing company that started in 2004. Its customers were other biotechnology companies in Canada and the USA. In 2008, as a result of the economic recession, these biotechnology companies were unable to raise capital and consequently were forced to discontinue clinical trials resulting in a loss of customers for QSV. QSV sought financing from private investors and governments but was unsuccessful. Consequently, QSV went bankrupt and had to terminate its employees and close the company in August 2008. Dr. Cochrane was a director from 2004 and chairman from 2006 to 2009.

None of our directors or officers are related by blood, marriage or adoption to any other director or officer.

We are not aware of arrangement or understanding with major shareholders, customers, suppliers or others, pursuant to which any person referred to above was selected as a director or officer.

B. Executive Compensation

Directors

The following table sets forth information concerning the total compensation paid in 2009 to each director.

Name	Fees & Retainers Earned ($)	Share-Based Awards ($)	Option-Based Awards[(1)] ($)	Non-Equity Incentive Plan Compensation ($)	Pension Value ($)	All Other Compensation ($)	Total ($)
Dr. W. Cochrane	$25,500	N/A	$20,825	None	N/A	None	$46,325
Mr. G. van Amersfoort	$27,250	N/A	$20,825	None	N/A	None	$48,075
Mr. J. Dinning	$29,000	N/A	$20,825	None	N/A	None	$49,825
Mr. M. Lievonen	$25,500	N/A	$20,825	None	N/A	None	$46,325
Dr. E. Levy	$25,500	N/A	$20,825	None	N/A	None	$46,325
Mr. R. Schultz	$47,750	N/A	$20,825	None	N/A	None	$68,575
Mr. F. Stewart	$40,250	N/A	$20,825	None	N/A	None	$61,075

Note:

(1) The options granted have an estimated grant date fair value of $1.19 per option using the following grant date assumptions: expected life of option, 3 years; volatility 57%; risk free interest rate 1.21%; dividend yield 0%.

Officers

Summary Compensation Table

The following table sets forth information concerning the total compensation paid to our officers in 2009.

Name and Principal Position	Year	Salary $	Share-Based Awards $	Option-Based Awards $[3]	Non-Equity Incentive Plan Compensation $		Pension Value $	All Other Compensation ($)[1]	Total Compensation ($)
					Annual Incentive Plans	Long-Term Incentive Plans			
Dr. Bradley G. Thompson	2009	444,996	N/A	59,500	106,800	N/A	N/A	40,200	651,496
Chief Executive Officer	2008	444,996	N/A	None	None	N/A	N/A	46,700	491,696
Douglas A. Ball	2009	257,567	N/A	35,700	46,000	N/A	N/A	34,654	373,921
Chief Financial Officer	2008	257,567	N/A	None	None	N/A	N/A	35,454	293,021
Matt C. Coffey	2009	326,224	N/A	35,700	46,000	N/A	N/A	38,520	446,444
Chief Operating Officer	2008	326,224	N/A	None	None	N/A	N/A	39,573	365,797
Karl Mettinger[2]	2009	333,101	N/A	35,700	38,000	N/A	N/A	40,709	447,510
Chief Medical Officer	2008	333,101	N/A	None	None	N/A	N/A	40,709	447,510

Name and principal position	Year	Salary $	Share-based awards $	Option-based awards $[3]	Non-equity incentive plan compensation $		Pension value $	All other compensation ($)[1]	Total compensation ($)
					Annual incentive plans	Long-term incentive plans			
Mary Ann Dillahunty[2] VP Intellectual Property	2009	161,700	N/A	17,850	24,270	N/A	N/A	20,063	223,883
	2008	242,550	N/A	None	None	N/A	N/A	32,661	275,211

Notes:

(1) The dollar amount set forth under this column is related to RRSP contributions and amounts provided for health care benefits by the Corporation for the Named Executive Officers. For Named Executive Officers resident in Canada these benefits are provided in accordance the Corporation's registered Health Benefit Plan.

(2) US Employees are paid in US Dollars. All amounts for each US Employee have been converted using the exchange rate of 1.0466 at December 31, 2009 and are indicated in Canadian Dollars.

(3) Option Based Awards was determined by applying the Black-Scholes Model to the options granted. Assumptions used were: risk free interest rate – 1.21%, expected life of options – 3 years, volatility 57%, and dividend yield – nil.

Narrative Discussion

The Corporation has entered into employment agreements with each of the following Executive Officers (each an "Employment Agreement"). Pursuant to the terms of the Employment Agreements,

Name and principal position	Year	Salary $
Dr. Bradley G. Thompson Chief Executive Officer	2010	444,996
Douglas A. Ball Chief Financial Officer	2010	257,567
Matt C. Coffey Chief Operating Officer	2010	326,224
Karl Mettinger Chief Medical Officer	2010	333,101[1]
Mary Ann Dillahunty VP Intellectual Property	2010	161,700[1]

Notes:

(1) U.S. Employees are paid in U.S. Dollars. All amounts for each U.S. Employee have been converted using the exchange rate of 1.0466 at December 31, 2009 and are indicated in Canadian Dollars.

Further, each Officer is entitled to additional benefits and performance-based bonuses. As well, the Employment Agreements provide that each Officer is subject to certain confidentiality and non-competition restrictions during and following the course of their respective employment with the Corporation. Each Employment Agreement shall continue until terminated by either party in accordance with the notice provisions thereof.

There are no long term incentive, benefit or actuarial plans in place. The Company does not currently have a stock appreciation rights plan.

Stock Options

Option Grants During the Year Ended December 31, 2009

We granted 155,000 stock options to the Officers with an exercise price of $3.06 during the financial year ended December 31, 2009.

Aggregated Option Exercises During the Year Ended December 31, 2009 and Financial Year-End Option Values

The following table sets forth certain information respecting the numbers and accrued value of unexercised stock options as at December 31, 2009 and options exercised by the Executive Officers during the financial year ended December 31, 2009:

	Securities Acquired on Exercise	Aggregate Value Realized	Unexercised Options at December 31, 2009		Value of Unexercised in-the-Money Options at December 31, 2009	
	(#)	($) [1]	(#) Exercisable	Unexercisable	($) [2] Exercisable	Unexercisable
Dr. Bradley G. Thompson	Nil	Nil	836,160	-	89,055	-
Douglas A. Ball	5,000	12,850	699,833	-	27,041	-
Dr. Matthew Coffey	223,550	415,278	457,333	-	27,041	-
Dr. Karl Mettinger	Nil	Nil	263,333	-	17,666	-
Mary Ann Dillahunty	Nil	Nil	106,667	25,000	8,834	-

Notes:

1) The aggregate value realized represents the dollar value equal to the difference between the exercise price of the options exercised and the market value of the Common Shares on the Toronto Stock Exchange on the date the options were exercised, multiplied by the number of options exercised.
2) The value of the unexercised "in-the-money" options has been determined by subtracting the exercise price of the options from the closing Common Share price of $2.75 on December 31, 2009, as reported by the Toronto Stock Exchange, and multiplying by the number of Common Shares that may be acquired upon the exercise of the options.

Termination of Employment or Change of Control

If the Employment Agreements of the Executive Officers are terminated by the Corporation other than for cause, Mr. Ball, Dr. Coffey, Dr. Mettinger and Ms. Dillahunty shall be entitled to 12 months pay in lieu of notice; and Dr. Thompson shall be entitled to 18 months pay in lieu of notice. If the Employment Agreements other than Ms. Dillahunty are terminated by the Corporation other than for cause, then all unexercised and unvested stock options then held by each are governed by the terms of the Stock Option Plan. Should Ms. Dillahunty be terminated by the Corporation other than for cause, then all unvested options will vest immediately. Further, if there is a change of control of the Corporation and Dr. Thompson, Mr. Ball, Dr. Coffey, Dr. Mettinger or Ms. Dillahunty are terminated without cause within one year following such change of control, then Dr. Thompson shall be entitled to 36 months pay in lieu of notice, Mr. Ball, Dr. Coffey, Dr. Mettinger and Ms. Dillahunty shall be entitled to 24 months pay in lieu of notice. For termination in accordance with this provision, pay shall include payment in lieu of benefits that otherwise would have been earned during the applicable term.

C. Board Practices

Our directors are elected by the shareholders at each Annual General Meeting and typically hold office until the next Annual General Meeting, at which time they may be re-elected or replaced. Casual vacancies on the board are filled by the remaining directors and the persons filling those vacancies hold office until the next Annual General Meeting, at which time they may be re-elected or replaced. The officers are appointed by the Board of Directors and hold office indefinitely at the pleasure of the Board of Directors.

Name and Municipality of Residence	Position with the Corporation	Director of the Corporation Since	Date of Expiration of Current Term of Office
Bradley G. Thompson Ph.D *Calgary, Alberta*	President, Chief Executive Officer and Chairman of the Board	April 21, 1999	Date of 2009 Annual General Meeting of the Shareholders
Douglas A. Ball C.A. *Calgary, Alberta*	Chief Financial Officer and Director	April 21, 1999	Date of 2009 Annual General Meeting of the Shareholders
William A. Cochrane, OC, M.D. [(2),(3)] Calgary, Alberta	Director	October 31, 2002	Date of 2009 Annual General Meeting of the Shareholders
Robert B. Schultz, F.C.A. [(1), (4)] *Toronto, Ontario*	Lead Director	June 30, 2000	Date of 2009 Annual General Meeting of the Shareholders
Fred A. Stewart, Q.C.[(1)(2)], *Calgary, Alberta*	Director	August 27, 1999	Date of 2009 Annual General Meeting of the Shareholders
J. Mark Lievonen, F.C.A.[(3)] *Markham, Ontario*	Director	April 5, 2004	Date of 2009 Annual General Meeting of the Shareholders
Jim Dinning[(1)] Calgary, Alberta	Director	March 24, 2004	Date of 2009 Annual General Meeting of the Shareholders
Ger van Amersfoort,[(2)] *Oakville, Ont*	Director	June 15, 2006	Date of 2009 Annual General Meeting of the Shareholders
Ed Levy, Ph.D, [(3)] *Lund, BC*	Director	May 17, 2006	Date of 2009 Annual General Meeting of the Shareholders

Notes:

1) These persons are members of the Audit Committee. Mr. Stewart is the Chair of the Audit Committee.

2) These persons are members of the Compensation Committee. Mr. Stewart is the Chair of the Compensation Committee.
3) These persons are members of the Corporate Governance and Nominating Committee. Mr. Lievonen is the Chair of the Corporate Governance and Nominating Committee.
4) As Lead Director, Mr. Schultz is an “ex officio” member of the Corporate Governance and Compensation Committees.

Directors’ Contracts

We receive a director’s consent from each of the independent directors upon their acceptance of their director’s position. We also enter into an Indemnity Agreement and Directors Confidentiality and Intellectual Property Assignment Agreement with each director.

The Company does not have any contracts with any of its directors which provide for benefits upon the termination of employment.

Compensation of Directors

Each director who is not a salaried employee of the Corporation was entitled to a fee of $1,750 per Board and committee meeting attended. An annual retainer fee of $15,000 was paid for service during 2009 and the lead director was entitled to an additional annual $10,000 retainer. The chair of the audit committee received an additional retainer of $6,000. The Corporation also grants to directors, from time to time, stock options in accordance with the Stock Option Plan and the reimbursement of any reasonable expenses incurred by them while acting in their directors' capacity. In the aggregate, a total of $220,750 in director's fees was paid to the Board of Directors during the fiscal year ended December 31, 2009. There have not been any changes to the fees for 2010. During the fiscal year ended December 31, 2009, there were 122,500 options granted to the independent directors in accordance with the Compensation Committee recommendation.

Compensation Committee

Compensation Discussion and Analysis

The Corporation has formed a Compensation Committee consisting of three outside directors: Mr. Stewart, Mr. van Amersfoort and Dr. Cochrane, none of whom are nor have been employees or officers of the Corporation or any of its affiliates. Mr. Stewart is presently the Chair of the Compensation Committee. Mr. Schultz, lead director, serves as an ex officio member of the Compensation Committee.

In arriving at its recommendations for compensation, the Compensation Committee considers the long-term interests of the Corporation as well as its current stage of development and the economic environment within which it operates. The market for biotechnology companies in the development phase was extremely challenging throughout 2008 and 2009, which was exacerbated by the further deterioration of the capital markets late in 2008 and 2009. Based on these factors, the Compensation Committee recognized the need to strike a balance between compensation to retain employees and resources expended to maintain operations. The Compensation Committee has in the past, undertaken market comparisons in developing appropriate compensation arrangements; however, due to market and sector conditions, it has deferred this activity in 2009, determining that a general maintenance with respect to salaries and benefits was reasonable and appropriate. They concluded that while salaries would remain unchanged, the general basis for bonus and stock option grants used in the past would provide guidance for the awards in 2009.

In 2009, the following guidelines were employed by the board of directors of Oncolytics (the "**Board**" or "**Board of Directors**") in granting bonuses and stock option grants to the Corporation's executive and senior officers.

The Chief Executive Officer of the Corporation is eligible for a cash bonus of up to 30% of his base salary and the other senior officers are eligible for a cash bonus of up to 20% of their base salary. In addition, when available, the Chief Executive Officer of the Corporation is eligible for an option grant of up to 15% of base salary with such number of options calculated using the estimated grant date fair value (as defined herein - see note 3 under Summary Compensation Table on Page 12), and the other officers are eligible for an option grant of up to 10% of salary based upon a similar calculation.. The actual bonus provided and the number of options granted hereunder is based upon the overall performance of the Corporation as assessed by the committee and approved by the board. In the event that the Corporation is operating in a challenging environment (as in 2008), these guidelines could result in the Board reducing the bonus awards and grants of stock options and in some circumstances result in no bonuses or stock

options being granted to executive and senior officers. However, the guidelines referenced above can also be exceeded at the discretion of the Board. Upon completion of their review, the Compensation Committee then provided their specific recommendations to the Board with respect to compensation paid to the Corporation's executive and senior officers.

The objectives of the Corporation's compensation arrangements are: (i) to attract and retain key personnel; (ii) to encourage commitment to the Corporation and its goals; (iii) to align executive interests with those of its shareholders; and (iv) to reward executives for performance in relation to overall corporate progress goals.

The key elements of the compensation program are the base salary, health benefits, payments allocated to employees to be directed by them to their personal retirement accounts, as well as bonuses and the granting of options, both based on corporate and personal performance. Performance goals are determined based on the strategic planning and budgeting process, which is conducted at least annually. The balance of performance during the year is assessed by the Board and is normally the key determinant for the allocation of bonuses and options. The elements of the compensation plan are intended to reward performance, and the various elements are intended to provide a blend of short-term and long-term incentives to align the interests of management and the shareholders.

Performance goals are determined based on the strategic planning and budgeting process, which is conducted at least annually. The balance of performance during the year is assessed by the Board and is normally the key determinant for the allocation of bonuses and options.

Compensation Committee Mandate

This Mandate was amended and approved by the Company's board of directors on March 8, 2010.

1. Policy Statement

It is the policy of Oncolytics Biotech Inc. (the "Corporation") to establish and maintain a Compensation Committee (the "Committee"), composed entirely of independent directors, to assist the Board of Directors of the Corporation (the "Board") in carrying out its responsibility for the Corporation's human resources and compensation policies and processes. The Committee will be provided with resources commensurate with the duties and responsibilities assigned to it by the Board, including administrative support. If determined necessary by the Committee, it will have the discretion to investigate and conduct reviews of any human resource or compensation matter including the standing authority to retain experts and, with approval of the Board, special counsel.

2. Composition of Committee

a. The Committee shall consist of a minimum of two (2) directors, at least half of whom shall be resident Canadians. The Board shall appoint the members of the Committee and may seek the advice and assistance of the Corporate Governance and Nominating Committee in identifying qualified candidates. The Board shall appoint one member of the Committee to be the Chair of the Committee, or delegate such authority to appoint the Chair of the Committee to the Committee.
b. The Chair of the Committee shall be responsible for the leadership of the Committee, including preparing or approving the agenda, presiding over the meetings, and making committee assignments.
c. Each director appointed to the Committee by the Board shall be an outside director who is unrelated. An outside, unrelated director is a director who meets the requirements of NASDAQ Rule 4200 and National Instrument 58-101 who is independent of management and is free from any interest, any business or other relationship which could, or could reasonably

be perceived, to materially interfere with the director's ability to act with a view to the best interests of the Corporation, other than interests and relationships arising from shareholding. In determining whether a director is independent of management, the Board shall make reference to the then current legislation, rules, policies and instruments of applicable regulatory authorities.

d. A director appointed by the Board to the Committee shall be a member of the Committee until replaced by the Board or until his or her resignation.

3. Meetings of the Committee

a. The Committee shall convene a minimum of two times each year at such times and places as may be designated by the Chair of the Committee and whenever a meeting is requested by the Board, a member of the Committee, or the Chief Executive Officer of the Corporation (the "CEO").
b. Notice of each meeting of the Committee shall be given to each member of the Committee and the CEO, who shall each be entitled to attend each meeting of the Committee and shall attend whenever requested to do so by a member of the Committee.
c. Notice of a meeting of the Committee shall:
    i. be in writing, including by electronic communication facilities;
    ii. state the nature of the business to be transacted at the meeting in reasonable detail;
    iii. to the extent practicable, be accompanied by copies of documentation to be considered at the meeting; and
    iv. be given at least two business days prior to the time stipulated for the meeting or such shorter period as the members of the Committee may permit.
d. A quorum for the transaction of business at a meeting of the Committee shall consist of a majority of the members of the Committee. However, it shall be the practice of the Committee to require review, and, if necessary, approval of certain important matters by all members of the Committee.
e. A member or members of the Committee may participate in a meeting of the Committee by means of such telephonic, electronic or other communication facilities, as permits all persons participating in the meeting to communicate adequately with each other. A member participating in such a meeting by any such means is deemed to be present at the meeting.
f. In the absence of the Chair of the Committee, the members of the Committee shall choose one of the members present to be Chair of the meeting. In addition, the members of the Committee shall choose one of the persons present to be the Secretary of the meeting.
g. Minutes shall be kept of all meetings of the Committee and shall be signed by the Chair and the Secretary of the meeting.

4. Duties and Responsibilities of the Committee

a. The Committee shall, at the earliest opportunity after each meeting, report to the Board the results of its activities and any reviews undertaken and make recommendations to the Board as deemed appropriate.

b. The Committee's primary duties and responsibilities are to review and make recommendations to the Board in respect of:
    i. human resource policies, practices and structures (to monitor consistency with the Corporation's goals and near and long-term strategies, support of operational effectiveness and efficiency, and maximization of human resources potential);
    ii. compensation policies and guidelines;
    iii. management incentive and perquisite plans and any non-standard remuneration plans;
    iv. senior management, executive and officer appointments and their compensation;
    v. management succession plans, management training and development plans, termination policies and termination arrangements;
    vi. Board compensation matters.

c. In carrying out its duties and responsibilities, the Committee shall:
    i. annually assess and make a recommendation to the Board with regard to the competitiveness and appropriateness of the compensation package of the CEO, all other officers of the Corporation and such other key employees of the Corporation or any subsidiary of the Corporation as may be identified by the CEO and approved by the Committee (collectively, the "Designated Employees");
    ii. annually review the performance goals and criteria for the CEO and evaluate the performance of the CEO against such goals and criteria and recommend to the Board the amount of regular and incentive compensation to be paid to the CEO;
    iii. annually, review and make a recommendation to the Board regarding the CEO's performance evaluation of Designated Employees and his recommendations with respect to the amount of regular and incentive compensation to be paid to such Designated Employees;
    iv. review and make a recommendation to the Board regarding any employment contracts or arrangements with each of the Designated Employees, including any retiring allowance arrangements or any similar arrangements to take effect in the event of a termination of employment;
    v. periodically, review the compensation philosophy statement of the Corporation and make recommendations for change to the Board as considered necessary;
    vi. from time to time, review and make recommendations to the Board in respect of the design, benefit provisions, investment options and text of applicable pension, retirement and savings plans or related matters;
    vii. annually, in conjunction with the Corporation's general and administrative budget, review and make recommendations to the Board regarding compensation guidelines for the forthcoming budget period;
    viii. when requested by the CEO, review and make recommendations to the Board regarding short term incentive or reward plans and, to the extent delegated by the Board, approve awards to eligible participants;

ix. review and make recommendations to the Board regarding incentive stock option plans or any other long term incentive plans and to the extent delegated by the Board, approve grants to participants and the magnitude and terms of their participation;
x. as required, fulfill the obligations assigned to the Committee pursuant to any other employee benefit plans approved by the Board;
xi. annually, prepare or review the report on executive compensation required to be disclosed in the Corporation's information circular or any other human resource or compensation matter required to be publicly disclosed by the Corporation;
xii. periodically, but at least every third year, review and make a recommendation to the Board regarding the compensation of the Board of Directors;
xiii. as required, retain independent advice in respect of human resources and compensation matters and, if deemed necessary by the Committee, meet separately with such advisors; and
xiv. assess, on an annual basis, the adequacy of this Mandate and the performance of the Committee.

d. In addition to the foregoing, the Committee shall undertake on behalf of the Board such other initiatives as may be necessary or desirable to assist the Board in discharging its responsibility to ensure that appropriate human resources development, performance evaluation, compensation and succession planning programs are in place and operating effectively.

Audit Committee

The Corporation has formed an Audit Committee in accordance with Section 3(a)(58)(A) of the U.S. Securities and Exchange Commission of 1934, as amended, consisting of three independent directors pursuant to the Rule 5605(a)(2) of the NASDAQ Capital Market and Rule 10A-3 of the United States Securities Exchange Act of 1934, as amended: Mr. Fred Stewart, Mr. Jim Dinning and Mr. Robert Schultz, none of whom are nor have been employees or officers of the Company or any of its affiliates. Mr. Stewart is presently the Chair of the Audit Committee. Each Audit Committee member is financially literate.

Mandate of the Audit Committee

This Mandate was approved by the Company's board of directors on March 8, 2010.

Policy Statement

It is the policy of Oncolytics Biotech Inc. (the "Corporation") to establish and maintain an Audit Committee, composed entirely of independent directors, to assist the Board of Directors (the "Board") in carrying out their oversight responsibility for the Corporation's internal controls, financial reporting and risk management processes. The Audit Committee will be provided with resources commensurate with the duties and responsibilities assigned to it by the Board including administrative support. If determined necessary by the Audit Committee, it will have the discretion to institute investigations of improprieties, or suspected improprieties within the scope of its responsibilities, including the standing authority to retain special counsel or experts.

Composition of the Committee

The Audit Committee shall consist of a minimum of three (3) directors, at least half of whom shall be resident Canadians. The Board shall appoint the members of the Audit Committee and may seek the advice and assistance of the Corporate Governance and Nominating Committee in identifying qualified candidates. The Board shall appoint

one member of the Audit Committee to be the Chair of the Audit Committee, or delegate such authority to appoint the Chair of the Audit Committee to the Audit Committee.

The Chair of the Committee shall be responsible for leadership of the Committee, including preparing or approving the agenda, presiding over the meetings, and making committee assignments.

Each director appointed to the Audit Committee by the Board shall be an outside director who is unrelated. An outside, unrelated director is a director who meets the requirements of NASDAQ Rule 5605(a)(2) and Multilaterial Instrument 52-110. A director appointed to the audit committee shall also meet the requirements of and Exchange Act Rule 10A-3(b)(1). Such director shall be independent of management and free from any interest, any business or other relationship which could, or could reasonably be perceived, to materially interfere with the director's ability to act with a view to the best interests of the Corporation, other than interests and relationships arising from shareholding. In determining whether a director is independent of management, the Board shall make reference to the abovementioned rules and any applicable revisions thereto, and any additional relevant then current legislation, rules, policies and instruments of applicable regulatory authorities.

Each member of the Audit Committee shall be financially literate. In order to be financially literate, a director must be, at a minimum, able to read and understand basic financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements. At least one member shall have accounting or related financial management expertise, meaning the ability to analyze and interpret a full set of financial statements, including the notes attached thereto, in accordance with generally GAAP. In determining whether a member of the Audit Committee is financially literate or has accounting or related financial expertise, reference shall be made to the then current legislation, rules, policies and instruments of applicable regulatory authorities, which for further clarification, shall include but not be limited to the definition of "financial expert" as defined by the U.S. Securities and Exchange Commission rule.

A director appointed by the Board to the Audit Committee shall be a member of the Audit Committee until replaced by the Board or until his or her resignation.

Meetings of the Committee

The Audit Committee shall convene a minimum of four times each year at such times and places as may be designated by the Chair of the Audit Committee and whenever a meeting is requested by the Board, a member of the Audit Committee, the auditors, or senior management of the Corporation. Scheduled meetings of the Audit Committee shall correspond with the review of the year-end and quarterly financial statements and management discussion and analysis.

Notice of each meeting of the Audit Committee shall be given to each member of the Audit Committee and to the auditors, who shall be entitled to attend each meeting of the Audit Committee and shall attend whenever requested to do so by a member of the Audit Committee.

Notice of a meeting of the Audit Committee shall:

a. be in writing, including by electronic communication facilities;
b. state the nature of the business to be transacted at the meeting in reasonable detail;
c. to the extent practicable, be accompanied by copies of documentation to be considered at the meeting; and
d. be given at least two business days prior to the time stipulated for the meeting or such shorter period as the members of the Audit Committee may permit.

A quorum for the transaction of business at a meeting of the Audit Committee shall consist of a majority of the members of the Audit Committee. However, it shall be the practice of the Audit Committee to require review, and, if necessary, approval of certain important matters by all members of the Audit Committee.

A member or members of the Audit Committee may participate in a meeting of the Audit Committee by means of such telephonic, electronic or other communication facilities, as permits all persons participating in the meeting to communicate adequately with each other. A member participating in such a meeting by any such means is deemed to be present at the meeting.

In the absence of the Chair of the Audit Committee, the members of the Audit Committee shall choose one of the members present to be Chair of the meeting. In addition, the members of the Audit Committee shall choose one of the persons present to be the Secretary of the meeting.

A member of the Board, senior management of the Corporation and other parties may attend meetings of the Audit Committee; however the Audit Committee (i) shall, at each meeting, meet with the external auditors independent of other individuals other than the Audit Committee and (ii) may meet separately with management.

Minutes shall be kept of all meetings of the Audit Committee and shall be signed by the Chair and the Secretary of the meeting.

Duties and Responsibilities of the Committee

The Audit Committee’s primary duties and responsibilities are to:

a. identify and monitor the management of the principal risks that could impact the financial reporting of the Corporation ;
b. monitor the integrity of the Corporation’s financial reporting process and system of internal controls regarding financial reporting and accounting compliance;
c. monitor the independence and performance of the Corporation’s external auditors. This will include receipt, review and evaluation, at least annually, of a formal written statement from the independent auditors confirming their independence, and qualifications, including their compliance with the requirements of the relevant oversight boards ;
d. deal directly with the external auditors to pre-approve external audit plans, other services (if any) and fees;
e. directly oversee the external audit process and results (in addition to items described in Section 4(d) below);
f. provide an avenue of communication among the external auditors, management and the Board;
g. carry out a review designed to ensure that an effective "whistle blowing" procedure exists to permit stakeholders to express any concerns regarding accounting, internal controls, auditing matters or financial matters to an appropriately independent individual;
h. pre-approve any related party transactions to be entered into by the Company, and ensure appropriate disclosure thereof;
i. ensure financial disclosure incorporates inclusion of any material correcting adjustments required by the external auditors; and

j. require and ensure that the external auditors are directly responsible to the Audit Committee, to whom they report

The Audit Committee shall have the authority to:

a. inspect any and all of the books and records of the Corporation and its affiliates;
b. discuss with the management of the Corporation and its affiliates, any affected party and the external auditors, such accounts, records and other matters as any member of the Audit Committee considers necessary and appropriate;
c. engage independent counsel and other advisors as it determines necessary to carry out its duties; and
d. to set and pay the compensation for any advisors employed by the Audit Committee.

The Audit Committee shall, at the earliest opportunity after each meeting, report to the Board the results of its activities and any reviews undertaken and make recommendations to the Board as deemed appropriate.

The Audit Committee shall:

a. review the audit plan with the Corporation's external auditors and with management;
b. review with the independent auditors the matters required to be discussed relating to the conduct of the audit, including (a) the proposed scope of their examination, with emphasis on accounting and financial areas where the Committee, the independent auditors or management believes special attention should be directed; (b) the results of their audit, including their audit findings report and resulting letter, if any, of recommendations for management; (c) their evaluation of the adequacy and effectiveness of the Company's internal controls over financial reporting; (d) significant areas of disagreement, if any, with management; (e) co-operation received from management in the conduct of the audit; (f) significant accounting, reporting, regulatory or industry developments affecting the Company; and (g) review any proposed changes in major accounting policies or principles proposed or contemplated by the independent auditors or management, the presentation and impact of material risks and uncertainties and key estimates and judgements of management that may be material to financial reporting;
c. review with management and with the external auditors material financial reporting issues arising during the most recent fiscal period and the resolution or proposed resolution of such issues;
d. review any problems experienced or concerns expressed by the external auditors in performing an audit, including any restrictions imposed by management or material accounting issues on which there was a disagreement with management;
e. review with senior management the process of identifying, monitoring and reporting the principal risks affecting financial reporting;
f. review audited annual financial statements (including management discussion and analysis) and related documents in conjunction with the report of the external auditors and obtain an explanation from management of all material variances between comparative reporting periods. Without restricting the generality of the foregoing, the committee will discuss with management and the independent auditors to the extent required, any issues and disclosure requirements regarding (a) the use of "pro forma" or "adjusted" non-GAAP information, as

well as financial information and earnings guidance provided to analysts and rating agencies, (b) any off balance sheet arrangements, and (c) any going concern qualification.

g. consider and review with management, the internal control memorandum or management letter containing the recommendations of the external auditors and management's response, if any, including an evaluation of the adequacy and effectiveness of the internal financial controls of the Corporation and subsequent follow-up to any identified weaknesses;
h. review with financial management and the external auditors the quarterly unaudited financial statements and management discussion and analysis before release to the public;
i. before release, review and if appropriate, recommend for approval by the Board, all public disclosure documents containing audited or unaudited financial information, including any prospectuses, annual reports, annual information forms, management discussion and analysis and press releases; and
j. oversee, any of the financial affairs of the Corporation or its affiliates, and, if deemed appropriate, make recommendations to the Board, external auditors or management.

The Audit Committee shall:

a. evaluate the independence and performance of the external auditors and annually recommend to the Board the appointment of the external auditor or the discharge of the external auditor when circumstances are warranted and monitor the audit partners' rotation as required by law.;
b. consider the recommendations of management in respect of the appointment of the external auditors;
c. pre-approve all non-audit services to be provided to the Corporation or its subsidiary entities by its external auditors', or the external auditors of affiliates of the Corporation subject to the over-riding principle that the external auditors not being permitted to be retained by the Corporation to perform specifically listed categories of non-audit services as set forth by the Securities and Exchange Commission as well as internal audit outsourcing services, financial information systems work and expert services. Notwithstanding, the foregoing the pre-approval of non-audit services may be delegated to a member of the Audit Committee, with any decisions of the member with the delegated authority reporting to the Audit Committee at the next scheduled meeting;
d. approve the engagement letter for non-audit services to be provided by the external auditors or affiliates, together with estimated fees, and considering the potential impact of such services on the independence of the external auditors;
e. when there is to be a change of external auditors, review all issues and provide documentation related to the change, including the information to be included in the Notice of Change of Auditors and documentation required pursuant to the then current legislation, rules, policies and instruments of applicable regulatory authorities and the planned steps for an orderly transition period; and
f. review all reportable events, including disagreements, unresolved issues and consultations, as defined by applicable securities policies, on a routine basis, whether or not there is to be a change of external auditors.

The Audit Committee shall enquire into and determine the appropriate resolution of any conflict of interest in respect of audit or financial matters, which are directed to the Audit Committee by any member of the Board, a shareholder of the Corporation, the external auditors, or senior management.

The Audit Committee shall periodically review with management the need for an internal audit function.

The Audit Committee shall review the Corporation's accounting and reporting of costs, liabilities and contingencies.

The Audit Committee shall establish and maintain procedures for:

a. the receipt, retention and treatment of complaints received by the Corporation regarding accounting controls, or auditing matters; and
b. the confidential, anonymous submission by employees of the Corporation or concerns regarding questionable accounting or auditing matters.

The Audit Committee shall review and approve the Corporation's hiring policies regarding employees and former employees of the present and former external auditors.

The Audit Committee shall review with the Corporation's legal counsel, on no less than an annual basis, any legal matter that could have a material impact on the Corporation's financial statements, and any enquiries received from regulators, or government agencies.

The Audit Committee shall assess, on an annual basis, the adequacy of this Mandate and the performance of the Audit Committee.

D. Employees

The following table sets out the number of our employees at the end of each of the last three fiscal years.

	2009	**2008**	**2007**
Research and development	9	10	9
Operating	5	6	5
Total	14	16	14

E. Share Ownership

The following table sets out the share ownership and options held of our directors and offices as of March 11, 2010.

	Common Shares	Percentage of Ownership(1)	Options(2)	Exercise Price	Expiry Date	Percentage of Outstanding (1)(3)
Officers						
Brad Thompson	652,900	1.06%	15,000	12.15	Dec 14, 2010	
			18,000	9.76	Jun 20, 2011	
			25,000	7.25	Dec 17, 2011	
			50,000	2.70	May 16, 2012	
			10,000	2.00	Dec 13, 2012	
			59,000	3.33	Aug 5, 2013	
			80,000	4.50	Dec 11, 2013	
			30,000	8.10	May 28, 2014	
			350,000	5.00	Dec 9, 2014	

	Common Shares	Percentage of Ownership(1)	Options(2)	Exercise Price	Expiry Date	Percentage of Outstanding (1)(3)
			149,160	2.22	Dec 12, 2017	
			50,000	3.06	Dec 8, 2019	
			836,160			1.36%
Matt Coffey	288,550	**	15,000	12.15	Dec 14, 2010	
			18,000	9.76	Jun 20, 2011	
			20,000	7.25	Dec 17, 2011	
			37,500	2.70	May 16, 2012	
			10,000	2.00	Dec 13, 2012	
			53,500	3.33	Aug 5, 2013	
			40,000	4.50	Dec 11, 2013	
			20,000	8.10	May 28, 2014	
			180,000	5.00	Dec 9, 2014	
			33,333	2.22	Dec 12, 2017	
			30,000	3.06	Dec 8, 2019	
			457,333			0.74%
Doug Ball	8,000	**	250,000	9.50	May 17, 2010	
			15,000	12.15	Dec 14, 2010	
			27,000	9.76	Jun 20, 2011	
			20,000	7.25	Dec 17, 2011	
			37,500	2.70	May 16, 2012	
			10,000	2.00	Dec 13, 2012	
			37,000	3.33	Aug 5, 2013	
			40,000	4.50	Dec 11, 2013	
			20,000	8.10	May 28, 2014	
			180,000	5.00	Dec 9, 2014	
			33,333	2.22	Dec 12, 2017	
			30,000	3.06	Dec 8, 2019	
			699,833			1.14%
Mary Ann Dillahunty	2,201	**	100,000	3.28	Feb 1, 2017	
			16,667	2.22	Dec 12, 2007	
			15,000	3.06	Dec 8, 2019	
			131,667			**
Karl Mettinger	2,000	**	200,000	3.18	Sept 23, 2015	
			33,333	2.22	Dec 12, 2017	
			30,000	3.06	Dec 8, 2019	
			263,333			**
George Gill	—	**	20,000	7.50	Oct 18, 2011	
			100,000	1.85	Oct 10, 2012	
			17,000	3.33	Aug 5, 2013	
			40,000	4.50	Dec 11, 2013	

7,500	8.10	May 28, 2014	
12,500	5.00	Dec 9, 2014	
16,667	2.22	Dec 12, 2017	
15,000	3.06	Dec 8, 2019	
228,667			**

Directors

	Common Shares	Percentage of Ownership(1)	Options(2)	Exercise Price	Expiry Date	Percentage of Outstanding (1)(3)
Bob Schultz	10,000	**	50,000	13.50	Jul 11, 2010	
			15,000	12.15	Dec 14, 2010	
			9,000	9.76	Jun 20, 2011	
			10,000	7.25	Dec 17, 2011	
			7,500	2.70	May 16, 2012	
			10,000	2.00	Dec 13, 2012	
			34,000	3.33	Aug 5, 2013	
			10,000	4.50	Dec 11, 2013	
			5,000	8.10	May 28, 2014	
			22,500	5.00	Dec 9, 2014	
			10,000	2.25	Dec 15, 2016	
			17,500	2.22	Dec 12, 2017	
			17,500	3.06	Dec 8, 2019	
			218,000			**
Fred Stewart	46,000	**	15,000	12.15	Dec 14, 2010	
			9,000	9.76	Jun 20, 2011	
			10,000	7.25	Dec 17, 2011	
			7,500	2.70	May 16, 2012	
			10,000	2.00	Dec 13, 2012	
			21,000	3.33	Aug 5, 2013	
			10,000	4.50	Dec 11, 2013	
			5,000	8.10	May 28, 2014	
			22,500	5.00	Dec 9, 2014	
			10,000	2.25	Dec 15, 2016	
			17,500	2.22	Dec 12, 2017	
			17,500	3.06	Dec 8, 2019	
			155,000			**
Jim Dinning	20,000	**	50,000	6.90	Mar 29, 2014	
			5,000	8.10	May 28, 2014	
			22,500	5.00	Dec 9, 2014	
			10,000	2.25	Dec 15, 2016	
			17,500	2.22	Dec 12, 2017	
			17,500	3.06	Dec 8, 2019	
			122,500			**
Mark Lievonen	3,000	**	50,000	9.38	Apr 5, 2014	
			5,000	8.10	May 28, 2014	
			22,500	5.00	Dec 9, 2014	
			10,000	2.25	Dec 15, 2016	
			17,500	2.22	Dec 12, 2017	
			17,500	3.06	Dec 8, 2019	
			122,500			**

Bill Cochrane	22,000	**	47,000	1.79	Nov 4, 2012
			4,000	3.33	Aug 5, 2013
			10,000	4.50	Dec 11, 2013
			5,000	8.10	May 28, 2014
			22,500	5.00	Dec 9, 2014

	Common Shares	Percentage of Ownership(1)	Options(2)	Exercise Price	Expiry Date	Percentage of Outstanding (1)(3)
			10,000	2.25	Dec 15, 2016	
			17,500	2.22	Dec 12, 2017	
			17,500	3.06	Dec 8, 2019	
			133,500			**
Ed Levy	15,300	**	50,000	4.10	May 16, 2016	
			10,000	2.25	Dec 15, 2016	
			17,500	2.22	Dec 12, 2017	
			17,500	3.06	Dec 8, 2019	
			95,000			**
Ger van Amersfoort	10,200	**	50,000	3.60	Jun 15, 2016	
			10,000	2.25	Dec 15, 2016	
			17,500	2.22	Dec 12, 2017	
			17,500	3.06	Dec 8, 2019	
			95,000			**
TOTAL:	1,080,151		3,558,493			

** Less than 1% ownership

Notes:

1) Based on 61,549,969 common shares issued and outstanding on December 31, 2009.
2) Options exercisable to acquire common shares.
3) Ownership percentage assumes aggregate beneficial ownership of common shares and common shares acquirable upon exercise of options.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

We are not directly or indirectly owned or controlled by another corporation(s) or by any foreign government. To the knowledge of our directors and senior officers, at December 31, 2009, there are no persons/entities who beneficially owned, directly or indirectly, or exercised control or direction over, our common shares carrying more than 5% of the voting rights attached to all our outstanding common shares.

The following table indicates, as of February 28,, 2010, the total number of common shares issued and outstanding, the approximate total number of holders of record of common shares, the number of holders of record of common shares with U.S. addresses, the portion of the outstanding common shares held by U.S. holders of record, and the percentage of common shares held by U.S. holders of record. This table does not indicate beneficial ownership of common shares.

Total Number of Holders of Record	Total Number of Common Shares issued and	Number of U.S. Holders of Record(2)	Number of Common Shares Held by U.S. Holders of	Percentage of Common Shares Held by U.S. Holders of

	Outstanding		Record	Record
211	61,549,969	54	5,143,304	8.4%

B. Related Party Transactions

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We have entered into employment contracts with each of our officers (see Item 6). Since the beginning of the fiscal year ended December 31, 2009 up to March 11, 2010, we did not enter into any other related party transactions and we do not have any loans outstanding with any officer, director or major shareholder.

C. Interests of Experts and Council

Not Applicable

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Statements

The financial statements filed as part of this annual report are filed under Item 18.

B. Significant Changes

There have been no significant changes to our annual financial statements.

ITEM 9. THE OFFER AND LISTING

A. Offering and Listing Details

Our Common Shares are traded on the TSX and on the NASDAQ Capital Market under the symbol "ONC" and “ONCY”, respectivley. The last reported sales price of our common shares on March 10, 2010 on the TSX was Cdn$3.39 and on the NASDAQ Capital Market was U.S.$3.31. The following table sets forth the high and low per share sales prices for our common shares on the NASDAQ and TSX for the periods indicated.

	Common Shares			
	NASDAQ		TSX	
	High	Low	High	Low
2005	5.57	2.51	6.66	2.98
2006	5.16	1.81	6.05	2.11
2007	2.90	1.46	3.40	1.50
2008	2.31	1.06	2.50	1.23
2009	3.80	1.14	4.10	1.41
2008				
Quarter 1	2.13	1.71	2.26	1.66
Quarter 2	2.31	1.78	2.50	1.60
Quarter 3	1.91	1.50	2.10	1.40
Quarter 4	1.60	1.06	1.92	1.23
2009				
Quarter 1	1.60	1.14	1.95	1.41
Quarter 2	2.13	1.21	2.33	1.50
Quarter 3	3.38	1.40	3.65	1.61
Quarter 4	3.80	2.57	4.10	2.65
September	3.38	2.02	3.65	2.18
October	3.80	2.93	4.10	3.13
November	3.74	2.66	3.98	2.85
December	2.95	2.57	3.11	2.65
2010				

January	2.95	2.05	3.12	2.15

	Common Shares			
	NASDAQ		TSX	
	High	Low	High	Low
February	3.29	2.25	3.48	2.40

Market Price Volatility of Common Shares

Market prices for the securities of biotechnology companies, including our securities, have historically been highly volatile, and the market has from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. Factors, such as fluctuations in our operating results, the aftermath of our public announcements, and general market conditions, can have an adverse effect on the market price of our common shares and other securities.

B. Plan of Distribution

Not Applicable

C. Markets

Our common shares, no par value, are traded on the NASDAQ Capital Market and the TSX under the symbol “ONCY" and “ONC”, respectively.

D. Selling Shareholders

Not Applicable

E. Dilution

Not Applicable

F. Expenses of the Issue

Not Applicable

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not Applicable

B. Memorandum and Articles of Association

Articles of Continuance

We are governed by our amended articles of incorporation (the "Articles") under the Business Corporations Act of Alberta (the “Act”) and by our by-laws (the "By-laws"). Our Alberta corporate access number is 207797382. Our Articles provide that there are no restrictions on the business we may carry on or on the powers we may exercise. Companies incorporated under the Act are not required to include specific objects or purposes in their articles or by-laws.

Directors

Subject to certain exceptions, including in respect of voting on any resolution to approve a contract that relates primarily to the director's remuneration, directors may not vote on resolutions to approve a material contract or material transaction if the director is a party to such contract or transaction. The directors are entitled to

remuneration as shall from time to time be determined by the Board of Directors with no requirement for a quorum of independent directors. The directors have the ability under the Act to exercise our borrowing power, without authorization of the shareholders. The Act permits shareholders to restrict this authority through a company's articles or by-laws (or through a unanimous shareholder agreement), but no such restrictions are in place for us. Our Articles and By-laws do not require directors to hold shares for qualification.

Rights, Preferences and Dividends Attaching to Shares

The holders of common shares have the right to receive dividends if and when declared. Each holder of common shares, as of the record date prior to a meeting, is entitled to attend and to cast one vote for each common share held as of such record date at such annual and/or special meeting, including with respect to the election or re-election of directors. Subject to the provisions of our By-laws, all directors may, if still qualified to serve as directors, stand for re-election. The numbers of our Board of Directors are not replaced at staggered intervals but are elected annually.

On a distribution of assets on a winding-up, dissolution or other return of capital (subject to certain exceptions) the holders of common shares shall have a right to receive their *pro rata* share of such distribution. There are no sinking fund or redemption provisions in respect of the common shares. Our shareholders have no liability to further capital calls as all shares issued and outstanding are fully paid and non-assessable.

No other classes of shares are currently permitted to be issued.

Action Necessary to Change the Rights of Shareholders

The rights attaching to the different classes of shares may be varied by special resolution passed at a meeting of that class's shareholders.

Annual and Special Meetings of Shareholders

Under the Act and our By-laws, we are required to mail a Notice of Meeting and Management Information Circular to registered shareholders not less than 21 days and not more than 50 days prior to the date of the meeting. Such materials must be filed concurrently with the applicable securities regulatory authorities in Canada and the U.S. Subject to certain provisions of the By-laws, a quorum of two or more shareholders in person or represented by proxy holding or representing by proxy not less than five (5%) percent of the total number of issued and outstanding shares enjoying voting rights at such meeting is required to properly constitute a meeting of shareholders. Shareholders and their duly appointed proxies and corporate representatives are entitled to be admitted to our annual and/or special meetings.

Limitations on the Rights to Own Shares

The Articles do not contain any limitations on the rights to own shares. Except as described below, there are currently no limitations imposed by Canadian federal or provincial laws on the rights of non-resident or foreign owners of Canadian securities to hold or vote the securities held. There are also no such limitations imposed by the Articles and By-laws with respect to our common shares.

Disclosure of Share Ownership

In general, under applicable securities regulation in Canada, a person or company who beneficially owns, directly or indirectly, voting securities of an issuer or who exercises control or direction over voting securities of an issuer or a combination of both, carrying more than 10% of the voting rights attached to all the issuer's outstanding voting securities is an insider and must, within 10 days of becoming an insider, file a report in the required form effective the date on which the person became an insider. The report must disclose any direct or indirect beneficial ownership of, or control or direction over, securities of the reporting issuer. Additionally, securities regulation in Canada provides for the filing of a report by an insider of a reporting issuer whose holdings change, which report must be filed within 10 days from the day on which the change takes place.

The rules in the U.S. governing the ownership threshold above which shareholder ownership must be disclosed are more stringent than those discussed above. Section 13 of the Exchange Act imposes reporting requirements on persons who acquire beneficial ownership (as such term is defined in Rule 13d-3 under the Exchange Act) of more than 5% of a class of an equity security registered under Section 12 of the Exchange Act. In general, such persons must file, within 10 days after such acquisition, a report of beneficial ownership with the SEC containing the information prescribed by the regulations under Section 13 of the Exchange Act. This information is also required to be sent to the issuer of the securities and to each exchange where the securities are traded.

Other Provisions of Articles and By-laws

There are no provisions in the Articles or By-laws:

- delaying or prohibiting a change in control of our company that operate only with respect to a merger, acquisition or corporate restructuring;
- discriminating against any existing or prospective holder of shares as a result of such shareholder owning a substantial number of shares;
- requiring disclosure of share ownership; or
- governing changes in capital, where such provisions are more stringent than those required by law.

C. Material Contracts

We have employment contracts with each of our officers as summarized in Item 6B. Other than these employment contracts, we have not entered into any other contract other than in the ordinary course of business over the last two years.

D. Exchange Controls

Canada has no system of exchange controls. There are no Canadian restrictions on the repatriation of capital or earnings of a Canadian public company to non-resident investors. There are no laws in Canada or exchange restrictions affecting the remittance of dividends, profits, interest, royalties and other payments to non-resident holders of our securities, except as discussed below in Section E, *Taxation*.

Restrictions on Share Ownership by Non-Canadians

There are no limitations under the laws of Canada or in our organizational documents on the right of foreigners to hold or vote securities of our company, except that the *Investment Canada Act* (the "Investment Canada Act") may require review and approval by the Minister of Industry (Canada) of certain acquisitions of "control" of our Company by a "non-Canadian."

Investment Canada Act

Under the Investment Canada Act, transactions exceeding certain financial thresholds, and which involve the acquisition of control of a Canadian business by a non-Canadian, are subject to review and cannot be implemented unless the Minister of Industry and/or, in the case of a Canadian business engaged in cultural activities, the Minister of Canadian Heritage, are satisfied that the transaction is likely to be of "net benefit to Canada". If a transaction is subject to review (a "Reviewable Transaction"), an application for review must be filed with the Investment Review Division of Industry Canada and/or the Department of Canadian Heritage prior to the implementation of the Reviewable Transaction. The responsible Minister is then required to determine whether the Reviewable Transaction is likely to be of net benefit to Canada taking into account, among other things, certain factors specified in the Investment Canada Act and any written undertakings that may have been given by the applicant. The Investment Canada Act contemplates an initial review period of up to 45 days after filing; however, if the responsible Minister has not completed the review by that date, the Minister may unilaterally extend the review period by up to 30 days (or such longer period as may be agreed to by the applicant and the Minister) to permit completion of the review. Direct acquisitions of control of most Canadian businesses by or from World Trade Organization ("WTO") investors are reviewable under the Investment Canada Act only if, in the case of an

acquisition of voting securities, the value of the worldwide assets of the Canadian business or, in the case of an acquisition of substantially all the assets of a Canadian business, the value of those assets exceed C$295 million for the year 2008 (this figure is adjusted annually to reflect inflation). Indirect acquisitions (e.g., an acquisition of a U.S. corporation with a Canadian subsidiary) of control of such businesses by or from WTO investors are not subject to review, regardless of the value of the Canadian businesses' assets. Significantly lower review thresholds apply where neither the investor nor the Canadian business is WTO investor controlled or where the Canadian business is engaged in uranium mining, certain cultural businesses, financial services or transportation services.

Even if the transaction is not reviewable because it does not meet or exceed the applicable financial threshold, the non-Canadian investor must still give notice to Industry Canada and, in the case of a Canadian business engaged in cultural activities, Canadian Heritage, of its acquisition of control of a Canadian business within 30 days of its implementation.

Competition Act

The *Competition Act* (Canada) (the "Competition Act") requires that a pre-merger notification filing be submitted to the Commissioner of Competition (the "Commissioner") in respect of proposed transactions that exceed certain financial and other thresholds. If a proposed transaction is subject to pre-merger notification, a pre-merger notification filing must be submitted to the Commissioner and a waiting period must expire or be waived by the Commissioner before the transaction may be completed. The parties to a proposed transaction may choose to submit either a short-form filing (in respect of which there is a 14-day statutory waiting period) or a long-form filing (in respect of which there is a 42-day statutory waiting period). However, where the parties choose to submit a short-form filing, the Commissioner may, within 14 days, require that the parties submit a long-form filing, in which case the proposed transaction generally may not be completed until 42 days after the long-form filing is submitted by the parties.

The Commissioner may, upon request, issue an advance ruling certificate ("ARC") in respect of a proposed transaction where she is satisfied that she would not have sufficient grounds on which to apply to the Competition Tribunal for an order under the merger provisions of the Competition Act. If the Commissioner issues an ARC in respect of a proposed transaction, the transaction is exempt from the pre-merger notification provisions. In addition, if the transaction to which the ARC relates is substantially completed within one year after the ARC is issued, the Commissioner cannot seek an order of the Competition Tribunal under the merger provisions of the Competition Act in respect of the transaction solely on the basis of information that is the same or substantially the same as the information on the basis of which the ARC was issued.

If the Commissioner is unwilling to issue an ARC, she may nevertheless issue a "no action" letter waiving notification and confirming that she is of the view that grounds do not then exist to initiate proceedings before the Competition Tribunal under the merger provisions of the Competition Act with respect to the proposed transaction, while preserving, during the three years following completion of the proposed transaction, her authority to initiate proceedings should circumstances change.

Regardless of whether pre-merger notification is required, the Commissioner may apply to the Competition Tribunal (a special purpose tribunal) for an order under the merger provisions of the Competition Act. If the Competition Tribunal finds that the transaction is or is likely to prevent or lessen competition substantially, it may order that the parties not proceed with the transaction or part of it or, in the event that the transaction has already been completed, order its dissolution or the disposition of some of the assets or shares involved. In addition, the Competition Tribunal may, with the consent of the person against whom the order is directed and the Commissioner, order that person to take any other action as is deemed necessary to remedy any substantial lessening or prevention of competition that the Competition Tribunal determines would or would likely result from the transaction.

E. Taxation

CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following is a general summary of certain material U.S. federal income tax considerations applicable to a U.S. Holder (as defined below) arising from and relating to the acquisition, ownership, and disposition of common shares.

This summary is for general information purposes only and does not purport to be a complete analysis or listing of all potential U.S. federal income tax considerations that may apply to a U.S. Holder arising from and relating to the acquisition, ownership, and disposition of common shares. In addition, this summary does not take into account the individual facts and circumstances of any particular U.S. Holder that may affect the U.S. federal income tax consequences to such U.S. Holder, including specific tax consequences to a U.S. Holder under an applicable tax treaty. Accordingly, this summary is not intended to be, and should not be construed as, legal or U.S. federal income tax advice with respect to any U.S. Holder. Each U.S. Holder should consult its own tax advisor regarding the U.S. federal, U.S. federal alternative minimum, U.S. federal estate and gift, U.S. state and local tax, and foreign tax consequences relating to the acquisition, ownership and disposition of common shares.

No legal opinion from U.S. legal counsel or ruling from the Internal Revenue Service (the “IRS”) has been requested, or will be obtained, regarding the U.S. federal income tax consequences of the acquisition, ownership, and disposition of common shares. This summary is not binding on the IRS, and the IRS is not precluded from taking a position that is different from, and contrary to, the positions taken in this summary. In addition, because the authorities on which this summary is based are subject to various interpretations, the IRS and the U.S. courts could disagree with one or more of the positions taken in this summary.

Scope of this Summary

Authorities

This summary is based on the Internal Revenue Code of 1986, as amended (the “Code”), Treasury Regulations (whether final, temporary, or proposed), published rulings of the IRS, published administrative positions of the IRS, U.S. court decisions, the Convention Between Canada and the United States of America with Respect to Taxes on Income and on Capital, signed September 26, 1980, as amended (the “Canada-U.S. Tax Convention”), and U.S. court decisions that are applicable and, in each case, as in effect and available, as of the date of this document. Any of the authorities on which this summary is based could be changed in a material and adverse manner at any time, and any such change could be applied on a retroactive or prospective basis which could affect the U.S. federal income tax considerations described in this summary. This summary does not discuss the potential effects, whether adverse or beneficial, of any proposed legislation that, if enacted, could be applied on a retroactive or prospective basis.

U.S. Holders

For purposes of this summary, the term "U.S. Holder" means a beneficial owner of common shares that is for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the U.S.;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) organized under the laws of the U.S., any state thereof or the D
- an estate whose income is subject to U.S. federal income taxation regardless of its source; or
- a trust that (1) is subject to the primary supervision of a court within the U.S. and the control of one or more U.S. persons for all substantial decisions or (2)

Non-U.S. Holders

For purposes of this summary, a “non-U.S. Holder” is a beneficial owner of common shares that is not a U.S. Holder. This summary does not address the U.S. federal income tax consequences to non-U.S. Holders arising from and relating to the acquisition, ownership, and disposition of common shares. Accordingly, a non-U.S. Holder should consult its own tax advisor regarding the U.S. federal, U.S. federal alternative minimum, U.S. federal estate and gift, U.S. state and local tax, and foreign tax consequences (including the potential application of and operation of any income tax treaties) relating to the acquisition, ownership, and disposition of common shares.

U.S. Holders Subject to Special U.S. Federal Income Tax Rules Not Addressed

This summary does not address the U.S. federal income tax considerations applicable to U.S. Holders that are subject to special provisions under the Code, including the following U.S. Holders: (a) U.S. Holders that are tax-exempt organizations, qualified retirement plans, individual retirement accounts, or other tax-deferred accounts; (b) U.S. Holders that are financial institutions, underwriters, insurance companies, real estate investment trusts, or regulated investment companies; (c) U.S. Holders that are dealers in securities or currencies or U.S. Holders that are traders in securities that elect to apply a mark-to-market accounting method; (d) U.S. Holders that have a "functional currency" other than the U.S. dollar; (e) U.S. Holders that own common shares as part of a straddle, hedging transaction, conversion transaction, constructive sale, or other arrangement involving more than one position; (f) U.S. Holders that acquired common shares in connection with the exercise of employee stock options or otherwise as compensation for services; (g) U.S. Holders that hold common shares other than as a capital asset within the meaning of Section 1221 of the Code (generally, property held for investment purposes); (h) partnerships and other pass-through entities (and investors in such partnerships and entities); or (j) U.S. Holders that own or have owned (directly, indirectly, or by attribution) 10% or more of the total combined voting power of the outstanding shares of the Company. This summary also does not address the U.S. federal income tax considerations applicable to U.S. Holders who are (a) U.S. expatriates or former long-term residents of the U.S. subject to Section 877 of the Code, (b) persons that have been, are, or will be a resident or deemed to be a resident in Canada for purposes of the Tax Act; (c) persons that use or hold, will use or hold, or that are or will be deemed to use or hold common shares in connection with carrying on a business in Canada; (d) persons whose common shares constitute "taxable Canadian property" under the Tax Act; or (e) persons that have a permanent establishment in Canada for the purposes of the Canada-U.S. Tax Convention. U.S. Holders that are subject to special provisions under the Code, including U.S. Holders described immediately above, should consult their own tax advisor regarding the U.S. federal, U.S. federal alternative minimum, U.S. federal estate and gift, U.S. state and local tax, and foreign tax consequences relating to the acquisition, ownership and disposition of common shares.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds common shares, the U.S. federal income tax consequences to such partnership and the partners of such partnership generally will depend on the activities of the partnership and the status of such partners. Partners of entities that are classified as partnerships for U.S. federal income tax purposes should consult their own tax advisor regarding the U.S. federal income tax consequences arising from and relating to the acquisition, ownership, and disposition of common shares.

Tax Consequences Not Addressed

This summary does not address the U.S. state and local, U.S. federal estate and gift, U.S. federal alternative minimum tax or foreign tax consequences to U.S. Holders of the acquisition, ownership, and disposition of common shares. Each U.S. Holder should consult its own tax advisor regarding the U.S. state and local, U.S. federal estate and gift, U.S. federal alternative minimum tax and foreign tax consequences of the acquisition, ownership, and disposition of common shares.

Passive Foreign Investment Company Rules

If the Company is considered a "passive foreign investment company" under the meaning of Section 1297 of the Code (a "PFIC") at any time during a U.S. Holder's holding period, the following sections will generally describe the U.S. federal income tax consequences to the U.S. Holder of the acquisition, ownership, and disposition of common shares.

PFIC Status of the Company

The Company generally will be a PFIC if, for a tax year, (a) 75% or more of the gross income of the Company for such tax year is passive income or (b) 50% or more of the value of the Company's assets either produce passive income or are held for the production of passive income, based on the quarterly average of the fair market value of such assets. "Gross income" generally means all revenues less the cost of goods sold, and "passive income" generally includes, for example, dividends, interest, certain rents and royalties, certain gains from the sale of stock and securities, and certain gains from commodities transactions.

Active business gains arising from the sale of commodities generally are excluded from passive income if substantially all of a foreign corporation's commodities are (a) stock in trade of such foreign corporation or other property of a kind which would properly be included in inventory of such foreign corporation, or property held by such foreign corporation primarily for sale to customers in the ordinary course of business, (b) property used in the trade or business of such foreign corporation that would be subject to the allowance for depreciation under Section 167 of the Code, or (c) supplies of a type regularly used or consumed by such foreign corporation in the ordinary course of its trade or business.

For purposes of the PFIC income test and asset test described above, if the Company owns, directly or indirectly, 25% or more of the total value of the outstanding shares of another corporation, the Company will be treated as if it (a) held a proportionate share of the assets of such other corporation and (b) received directly a proportionate share of the income of such other corporation. In addition, for purposes of the PFIC income test and asset test described above, "passive income" does not include any interest, dividends, rents, or royalties that are received or accrued by the Company from a "related person" (as defined in Section 954(d)(3) of the Code), to the extent such items are properly allocable to the income of such related person that is not passive income.

In addition, under certain attribution rules, if the Company is a PFIC, U.S. Holders will be deemed to own their proportionate share of any subsidiary of the Company which is also a PFIC (a ''Subsidiary PFIC''), and will be subject to U.S. federal income tax on their proportionate share of (i) a distribution on the shares of a Subsidiary PFIC and (ii) a disposition or deemed disposition of shares of a Subsidiary PFIC, both as if such U.S. Holders directly held the shares of such Subsidiary PFIC.

The Company believes that it qualified as a PFIC for the taxable year ended December 31, 2009, and based on current business plans and financial projections, the Company anticipates that it may qualify as a PFIC for subsequent taxable years. The determination of whether a corporation was, or will be, a PFIC for a tax year depends, in part, on the application of complex U.S. federal income tax rules, which are subject to differing interpretations. In addition, whether a corporation will be a PFIC for any tax year depends on the assets and income of such corporation over the course of each such tax year and, as a result, cannot be predicted with certainty as of the date of this document. Accordingly, there can be no assurance that the IRS will not challenge any determination made by the Company (or a Subsidiary PFIC) concerning its PFIC status or that the Company (and each Subsidiary PFIC) was not, or will not be, a PFIC for any tax year. Each U.S. Holder should consult its own tax advisor regarding the PFIC status of the Company and each Subsidiary PFIC.

Default PFIC Rules Under Section 1291 of the Code

If the Company is a PFIC, the U.S. federal income tax consequences to a U.S. Holder of the acquisition, ownership, and disposition of common shares will depend on whether such U.S. Holder makes an election to treat the Company as a "qualified electing fund" or "QEF" under Section 1295 of the Code (a "QEF Election") or a mark-to-market election under Section 1296 of the Code (a "Mark-to-Market Election"). A U.S. Holder that does not make either a QEF Election or a Mark-to-Market Election will be referred to in this summary as a "Non-Electing U.S. Holder."

A Non-Electing U.S. Holder will be subject to the rules of Section 1291 of the Code with respect to (a) any gain recognized on the sale or other taxable disposition of common shares and (b) any excess distribution received on the common shares. A distribution generally will be an "excess distribution" to the extent that such distribution (together with all other distributions received in the current tax year) exceeds 125% of the average distributions received during the three preceding tax years (or during a U.S. Holder's holding period for the common shares, if shorter).

Under Section 1291 of the Code, any gain recognized on the sale or other taxable disposition of common shares, and any "excess distribution" received on common shares, must be ratably allocated to each day in a Non-Electing U.S. Holder's holding period for the respective common shares. The amount of any such gain or excess distribution allocated to the tax year of disposition or distribution of the excess distribution and to years before the entity became a PFIC, if any, would be taxed as ordinary income. The amounts allocated to any other tax year would be subject to U.S. federal income tax at the highest tax applicable to ordinary income in each such year, and an interest charge would be imposed on the tax liability for each such year, calculated as if such tax liability had been due in each such year. A Non-Electing U.S. Holder that is not a

corporation must treat any such interest paid as “personal interest,” which is not deductible.

If the Company is a PFIC for any tax year during which a Non-Electing U.S. Holder holds common shares, the Company will continue to be treated as a PFIC with respect to such Non-Electing U.S. Holder, regardless of whether the Company ceases to be a PFIC in one or more subsequent tax years. A Non-Electing U.S. Holder may terminate this deemed PFIC status by electing to recognize gain (which will be taxed under the rules of Section 1291 of the Code discussed above) as if such common shares were sold on the last day of the last tax year for which the Company was a PFIC.

QEF Election

A U.S. Holder that makes a QEF Election for the first tax year in which its holding period of its common shares begins, generally, will not be subject to the rules of Section 1291 of the Code discussed above with respect to its common shares. However, a U.S. Holder that makes a QEF Election will be subject to U.S. federal income tax on such U.S. Holder's pro rata share of (a) the net capital gain of the Company, which will be taxed as long-term capital gain to such U.S. Holder, and (b) and the ordinary earnings of the Company, which will be taxed as ordinary income to such U.S. Holder. Generally, "net capital gain" is the excess of (a) net long-term capital gain over (b) net short-term capital loss, and "ordinary earnings" are the excess of (a) "earnings and profits" over (b) net capital gain. A U.S. Holder that makes a QEF Election will be subject to U.S. federal income tax on such amounts for each tax year in which the Company is a PFIC, regardless of whether such amounts are actually distributed to such U.S. Holder by the Company. However, for any tax year in which the Company is a PFIC and has no net income or gain, U.S. Holders that have made a QEF Election would not have any income inclusions as a result of the QEF Election. If a U.S. Holder that made a QEF Election has an income inclusion, such a U.S. Holder may, subject to certain limitations, elect to defer payment of current U.S. federal income tax on such amounts, subject to an interest charge. If such U.S. Holder is not a corporation, any such interest paid will be treated as "personal interest," which is not deductible.

A U.S. Holder that makes a QEF Election generally (a) may receive a tax-free distribution from the Company to the extent that such distribution represents "earnings and profits" of the Company that were previously included in income by the U.S. Holder because of such QEF Election and (b) will adjust such U.S. Holder's tax basis in the common shares to reflect the amount included in income or allowed as a tax-free distribution because of such QEF Election. In addition, a U.S. Holder that makes a QEF Election generally will recognize capital gain or loss on the sale or other taxable disposition of common shares.

The procedure for making a QEF Election, and the U.S. federal income tax consequences of making a QEF Election, will depend on whether such QEF Election is timely. A QEF Election will be treated as "timely" if such QEF Election is made for the first year in the U.S. Holder's holding period for the common shares in which the Company was a PFIC. A U.S. Holder may make a timely QEF Election by filing the appropriate QEF Election documents at the time such U.S. Holder files a U.S. federal income tax return for such year.

A QEF Election will apply to the tax year for which such QEF Election is made and to all subsequent tax years, unless such QEF Election is invalidated or terminated or the IRS consents to revocation of such QEF Election. If a U.S. Holder makes a QEF Election and, in a subsequent tax year, the Company ceases to be a PFIC, the QEF Election will remain in effect (although it will not be applicable) during those tax years in which the Company is not a PFIC. Accordingly, if the Company becomes a PFIC in another subsequent tax year, the QEF Election will be effective and the U.S. Holder will be subject to the QEF rules described above during any subsequent tax year in which the Company qualifies as a PFIC.

For each taxable year that the Company qualifies as a PFIC, the Company will make available to each U.S. Holder that has made a QEF Election, upon written request, a "PFIC Annual Information Statement" as described in Treasury Regulation Section 1.1295-1(g) (or any successor Treasury Regulation) and use commercially reasonable efforts to provide all additional information that such U.S. Holder is required to obtain in connection with maintaining such QEF Election with regard to the Company.

Mark-to-Market Election

A U.S. Holder may make a Mark-to-Market Election only if the common shares are marketable stock. The common shares generally will be "marketable stock" if the common shares are regularly traded on (a) a national securities exchange that is registered with the Securities and Exchange Commission, (b) the national market system established pursuant to section 11A of the Securities and Exchange Act of 1934, or (c) a foreign securities exchange that is regulated or supervised by a governmental authority of the country in which the market is located, provided that (i) such foreign exchange has trading volume, listing, financial disclosure, and other requirements and the laws of the country in which such foreign exchange is located, together with the rules of such foreign exchange, ensure that such requirements are actually enforced and (ii) the rules of such foreign exchange ensure active trading of listed stocks. If such stock is traded on such a qualified exchange or other market, such stock generally will be "regularly traded" for any calendar year during which such stock is traded, other than in de minimis quantities, on at least 15 days during each calendar quarter.

A U.S. Holder that makes a Mark-to-Market Election with respect to its common shares generally will not be subject to the rules of Section 1291 of the Code discussed above with respect to such common shares. However, if a U.S. Holder does not make a Mark-to-Market Election beginning in the first tax year of such U.S. Holder's holding period for the common shares or such U.S. Holder has not made a timely QEF Election, the rules of Section 1291 of the Code discussed above will apply to certain dispositions of, and distributions on, the common shares.

A U.S. Holder that makes a Mark-to-Market Election will include in ordinary income, for each tax year in which the Company is a PFIC, an amount equal to the excess, if any, of (a) the fair market value of the common shares, as of the close of such tax year over (b) such U.S. Holder's tax basis in such common shares. A U.S. Holder that makes a Mark-to-Market Election will be allowed a deduction in an amount equal to the excess, if any, of (i) such U.S. Holder's adjusted tax basis in the common shares, over (ii) the fair market value of such common shares (but only to the extent of the net amount of previously included income as a result of the Mark-to-Market Election for prior tax years).

A U.S. Holder that makes a Mark-to-Market Election generally also will adjust such U.S. Holder's tax basis in the common shares to reflect the amount included in gross income or allowed as a deduction because of such Mark-to-Market Election. In addition, upon a sale or other taxable disposition of common shares, a U.S. Holder that makes a Mark-to-Market Election will recognize ordinary income or ordinary loss (not to exceed the excess, if any, of (a) the amount included in ordinary income because of such Mark-to-Market Election for prior tax years over (b) the amount allowed as a deduction because of such Mark-to-Market Election for prior tax years).

A Mark-to-Market Election applies to the tax year in which such Mark-to-Market Election is made and to each subsequent tax year, unless the common shares cease to be "marketable stock" or the IRS consents to revocation of such election. Each U.S. Holder should consult its own tax advisor regarding the availability of, and procedure for making, a Mark-to-Market Election.

Although a U.S. Holder may be eligible to make a Mark-to-Market Election with respect to the common shares, no such election may be made with respect to the stock of any Subsidiary PFIC that a U.S. Holder is treated as owning, because such stock is not marketable. Hence, the Mark-to-Market Election will not be effective to eliminate the interest charge described above with respect to deemed dispositions of Subsidiary PFIC stock or distributions from a Subsidiary PFIC.

Other PFIC Rules

Under Section 1291(f) of the Code, the IRS has issued proposed Treasury Regulations that, subject to certain exceptions, would cause a U.S. Holder that had not made a timely QEF Election to recognize gain (but not loss) upon certain transfers of common shares that would otherwise be tax-deferred (e.g., gifts and exchanges pursuant to corporate reorganizations). However, the specific U.S. federal income tax consequences to a U.S. Holder may vary based on the manner in which common shares are transferred.

Certain additional adverse rules will apply with respect to a U.S. Holder if the Company is a PFIC, regardless of whether such U.S. Holder makes a QEF Election. For example under Section 1298(b)(6) of the Code, a U.S. Holder that uses common shares as security for a loan will, except as may be provided in Treasury Regulations, be treated as having made a taxable disposition of such common shares.

Special rules also apply to the amount of foreign tax credit that a U.S. Holder may claim on a distribution from a PFIC. Subject to such special rules, foreign taxes paid with respect to any distribution in respect of stock in a PFIC are generally eligible for the foreign tax credit. The rules relating to distributions by a PFIC and their eligibility for the foreign tax credit are complicated, and a U.S. Holder should consult with their own tax advisor regarding the availability of the foreign tax credit with respect to distributions by a PFIC.

In addition, a U.S. Holder who acquires common shares from a decedent will not receive a “step up” in tax basis of such common shares to fair market value.

The PFIC rules are complex, and each U.S. Holder should consult its own tax advisor regarding the PFIC rules and how the PFIC rules may affect the U.S. federal income tax consequences of the acquisition, ownership, and disposition of common shares.

U.S. Federal Income Tax Consequences of the Acquisition, Ownership, and Disposition of Common Shares

If either (a) the Company is not treated as a PFIC with respect to a U.S. Holder; (b) the Company is no longer a PFIC in the current taxable year and a U.S. Holder has recognized unrealized gain as of the last day of the taxable year in which the Company was a PFIC; or (c) a U.S. Holder has made a timely QEF Election and the Company is no longer a PFIC in the current taxable year, then a U.S. Holder generally will not be subject to the rules described above under the heading “Passive Foreign Investment Company Rules.” Instead, the U.S. Holder will have the tax consequences described below.

General Taxation of Distributions

Subject to the PFIC rules discussed above, a U.S. Holder that receives a distribution, including a constructive distribution, with respect to a Common Share will be required to include the amount of such distribution in gross income as a dividend (without reduction for any Canadian income tax withheld from such distribution) to the extent of the current or accumulated “earnings and profits” of the Company, as computed for U.S. federal income tax purposes. A dividend generally will be taxed to a U.S. Holder at ordinary income tax rates. To the extent that a distribution exceeds the current and accumulated “earnings and profits” of the Company, such distribution will be treated first as a tax-free return of capital to the extent of a U.S. Holder's tax basis in the common shares and thereafter as gain from the sale or exchange of such common shares. (See “ Sale or Other Taxable Disposition of common shares” below). However, the Company may not maintain the calculations of earnings and profits in accordance with U.S. federal income tax principles, and each U.S. Holder should therefore assume that any distribution by the Company with respect to the common shares will constitute ordinary dividend income. Dividends received on common shares generally will not be eligible for the “dividends received deduction”. In addition, the Company does not anticipate that its distributions will be eligible for the preferential tax rates applicable to long-term capital gains. The dividend rules are complex, and each U.S. Holder should consult its own tax advisor regarding the application of such rules.

Sale or Other Taxable Disposition of Common Shares

Subject to the PFIC rules discussed above, upon the sale or other taxable disposition of common shares, a U.S. Holder generally will recognize capital gain or loss in an amount equal to the difference between the amount of cash plus the fair market value of any property received and such U.S. Holder's tax basis in such common shares sold or otherwise disposed of. Subject to the PFIC rules discussed above, gain or loss recognized on such sale or other disposition generally will be long-term capital gain or loss if, at the time of the sale or other disposition, the common shares have been held for more than one year.

Gain or loss recognized by a U.S. Holder on the sale or other taxable disposition of common shares generally will be treated as "U.S. source" for purposes of applying the U.S. foreign tax credit rules unless the gain is subject to tax in

Canada and is resourced as “foreign source” under the Canada-U.S. Tax Convention and such U.S. Holder elects to treat such gain or loss as “foreign source.”

Preferential tax rates apply to long-term capital gain of a U.S. Holder that is an individual, estate, or trust. There are currently no preferential tax rates for long-term capital gain of a U.S. Holder that is a corporation. Deductions for capital losses are subject to significant limitations under the Code.

Receipt of Foreign Currency

The amount of any distribution paid to a U.S. Holder in foreign currency, or on the sale, exchange or other taxable disposition of common shares, generally will be equal to the U.S. dollar value of such foreign currency based on the exchange rate applicable on the date of receipt (regardless of whether such foreign currency is converted into U.S. dollars at that time). If the foreign currency received is not converted into U.S. dollars on the date of receipt, a U.S. Holder will have a basis in the foreign currency equal to its U.S. dollar value on the date of receipt. Any U.S. Holder who receives payment in foreign currency and engages in a subsequent conversion or other disposition of the foreign currency may have a foreign currency exchange gain or loss that would be treated as ordinary income or loss, and generally will be U.S. source income or loss for foreign tax credit purposes. Each U.S. Holder should consult its own U.S. tax advisor regarding the U.S. federal income tax consequences of receiving, owning, and disposing of foreign currency.

Foreign Tax Credit

Subject to the PFIC rules discussed above, a U.S. Holder who pays (whether directly or through withholding) Canadian income tax with respect to dividends paid on the common shares generally will be entitled, at the election of such U.S. Holder, to receive either a deduction or a credit for such Canadian income tax paid. Generally, a credit will reduce a U.S. Holder’s U.S. federal income tax liability on a dollar-for-dollar basis, whereas a deduction will reduce a U.S. Holder’s income subject to U.S. federal income tax. This election is made on a year-by-year basis and applies to all foreign taxes paid (whether directly or through withholding) by a U.S. Holder during a year.

Complex limitations apply to the foreign tax credit, including the general limitation that the credit cannot exceed the proportionate share of a U.S. Holder’s U.S. federal income tax liability that such U.S. Holder’s “foreign source” taxable income bears to such U.S. Holder’s worldwide taxable income. In applying this limitation, a U.S. Holder’s various items of income and deduction must be classified, under complex rules, as either “foreign source” or “U.S. source.” In addition, this limitation is calculated separately with respect to specific categories of income. Dividends paid by the Company generally will constitute “foreign source” income and generally will be categorized as “passive category income.” The foreign tax credit rules are complex, and each U.S. Holder should consult its own tax advisor regarding the foreign tax credit rules.

Backup Withholding and Information Reporting

Under U.S. federal income tax law and Treasury regulations, certain categories of U.S. Holders must file information returns with respect to their investment in, or involvement in, a foreign corporation. Penalties for failure to file certain of these information returns are substantial. U.S. Holders should consult with their own tax advisors regarding the requirements of filing information returns, and, if applicable mark-to-market and QEF elections.

Payments made within the U.S. or by a U.S. payor or U.S. middleman, of dividends on, and proceeds arising from the sale or other taxable disposition of, common shares generally may be subject to information reporting and backup withholding tax, at the rate of 28%, if a U.S. Holder (a) fails to furnish such U.S. Holder's correct U.S. taxpayer identification number (generally on Form W-9), (b) furnishes an incorrect U.S. taxpayer identification number, (c) is notified by the IRS that such U.S. Holder has previously failed to properly report items subject to backup withholding tax, or (d) fails to certify, under penalty of perjury, that such U.S. Holder has furnished its correct U.S. taxpayer identification number and that the IRS has not notified such U.S. Holder that it is subject to backup withholding tax. However, certain exempt persons, such as corporations, generally are excluded from these information reporting and backup withholding rules. Any amounts withheld under the U.S. backup withholding tax rules will be allowed as a credit against a U.S. Holder's U.S. federal income tax liability, if any, or will be refunded,

if such U.S. Holder furnishes required information to the IRS in a timely manner. Each U.S. Holder should consult its own tax advisor regarding the information reporting and backup withholding rules.

F. Dividends and Paying Agents

Not Applicable

G. Statements by Experts

Not Applicable

H. Documents on Display

We are subject to the informational requirements of the Exchange Act and file reports and other information with the SEC. You may read and copy any of our reports and other information at, and obtain copies upon payment of prescribed fees from, the Public Reference Room maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. In addition, the SEC maintains a Website that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC at http://www.sec.gov. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

We are required to file reports and other information with the securities commissions in Canada. You are invited to read and copy any reports, statements or other information, other than confidential filings, that we file with the provincial securities commissions. These filings are also electronically available from the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") (http://www.sedar.com), the Canadian equivalent of the SEC's electronic document gathering and retrieval system.

We "incorporate by reference" information that we file with the SEC, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this Form 20-F and more recent information automatically updates and supersedes more dated information contained or incorporated by reference in this Form 20-F.

As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements to shareholders.

We will provide without charge to each person, including any beneficial owner, to whom a copy of this annual report has been delivered, on the written or oral request of such person, a copy of any or all documents referred to above which have been or may be incorporated by reference in this annual report (not including exhibits to such incorporated information that are not specifically incorporated by reference into such information). Requests for such copies should be directed to us at the following address: Oncolytics Biotech Inc., 210 – 1167 Kensington Crescent, NW, Calgary, Alberta, Canada, T2N 1X7, Attention: Doug Ball. Telephone (403) 670 - 7377. Facsimile (403) 283-0858 EMAIL: info@oncolytics.ca.

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Foreign Currency Risk

We operate primarily in Canada, the U.S., and the U.K. Therefore, we are exposed to foreign currency risk associated with our expenses outside of Canada. We do not use financial derivative instruments to manage this market risk.

Interest Rate Risk

The primary objective of our policy for the investment of temporary cash surpluses is the protection of principal, and, accordingly, we generally invest in investment-grade debt securities with varying maturities. As it is our intent and policy to hold these investments until maturity, we do not have a material exposure to interest rate risk.

We do not currently have any long-term debt, nor do we currently utilize interest rate swap contracts to hedge against interest rate risk.

We do not use financial instruments for trading purposes and are not parties to any leverage derivatives. We do not currently engage in hedging transactions. See “Currency and Exchange Rates” and Item 4 – “Information on the Company”.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES.

A. Debt Securities

Not Applicable

B. Warrants and Rights

Not Applicable

C. Other Securities

Not Applicable

D. American Depository Shares

The Company’s common shares are not represented by American Depository Receipts.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES.

None

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS.

A. Modification of Instruments Defining Rights of Security Holders.

None

B. Modification or Issuance of Other Class of Securities.

None

C. Withdrawal or Substitution of Security

None

D. Change of Trustee or Paying Agent

None

E. Use of Proceeds

There has been no change to the information provided in our first annual report on Form 20-F.

ITEM 15. CONTROLS AND PROCEDURES

A. Evaluation of Disclosure Controls and Procedures

It is the conclusion of our Chief Executive Officer and Chief Financial Officer that our Company's disclosure controls and procedures (as defined in Exchange Act rules 13a-15(e) and 15d-15(e)), based on their evaluation of these controls and procedures as of the end of the period covered by this annual report, are effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to the our management, including its Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

B. Management’s Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. As defined in Exchange Act Rule 13a-15(f), internal control over financial reporting is a process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer and effected by the board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP, including a reconciliation to U.S. GAAP, and includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial

statements in accordance with Canadian GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Management, including the Company's Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2009. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on this assessment, management believes that, as of December 31, 2009, the Company's internal control over financial reporting was effective based on those criteria.

The Company is required to provide an auditor's attestation report on internal control over financial reporting for the fiscal year ended December 31, 2009. In this report, the Company's independent registered auditor, Ernst & Young LLP, must state its opinion as to the effectiveness of the Company's internal control over financial reporting for the fiscal year ended December 31, 2009. Ernst & Young LLP has audited the Company's financial statements included in this annual report on Form 20-F and has issued an attestation report on the Company's internal control over financial reporting.

C. Attestation report of the register public accounting firms

The Auditor Attestation Report is included in the Ernst & Young LLP Independent Auditor's Report, included in the Company's financial statements, filed as Exhibit 99.1 to this Annual Report and incorporated herein by reference.

D. Changes in Internal Controls over Financial Reporting

There were no changes in our internal controls over financial reporting that occurred during the period that is covered by this annual report that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that each of the Audit Committee members, Fred Stewart, Robert Schultz and Jim Dinning, is a financial expert and each is independent pursuant to pursuant to the Rule 5605(a)(2) of the NASDAQ Capital Market and Rule 10A-3 of the Exchange Act.

ITEM 16B. CODE OF ETHICS

Our Board of Directors has adopted a Code of Ethics for our CEO, CFO and Accounting Officer that applies to our CEO, CFO, and Controller. A copy of this Code of Ethics may be found on the Company's website at http://www.oncolyticsbiotech.com. Requests for such copies should be directed to us at the following address: Oncolytics Biotech Inc., 210 – 1167 Kensington Crescent, NW, Calgary, Alberta, Canada, T2N 1X7, Attention: Doug Ball. Telephone (403) 670 - 7377. Facsimile (403) 283-0858 EMAIL: info@oncolyticsbiotech.com.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit Fees and Services

During the financial years ended December 31, 2009, 2008, and 2007,, Ernst & Young LLP received the following fees:

	December 31,		
	2009	2008	2007
Item	$	$	$
Audit fees	177,396	140,961	50,825
Audit-related fees [(1),(3),]	107,654	121,440	82,628
Tax fees [(2)]	21,626	17,316	11,608
All other fees [(4)]	2,098	112,352	146,893

Notes:

1) Includes review of interim financial statements, accounting consultations and subscription to on-line accounting services.
2) Comprised of tax return preparation, scientific research and development return and other tax consultation fees.
3) Includes fees associated with matters relating to the prospectus offerings and private company purchase (2008 – the base shelf prospectus and prospectus offering; 2007 – prospectus offering).
4) Includes fees associated with the adoption of International Financial Reporting Standards ("IFRS") (2008 – includes fees associated with the expansion of our corporate structure and a diagnostic examination of IFRS; 2007 – examination and anticipated expansion of our corporate structure).

Audit Fees

Audit fees were for professional services rendered by Ernst & Young, LLP for the audit of our annual financial statements and services provided in connection with statutory and regulatory filings or engagements.

Audit-Related Fees

Audit-related fees were for assurance and related services reasonably related to the performance of the audit or review of the annual statements and are not reported under the heading Audit Fees above. These services consisted of accounting consultations, assistance with prospectus filings and assistance with preparations for compliance with section 404 of the *Sarbanes-Oxley Act of 2002*.

Tax Fees

Tax fees were for tax compliance and professional tax consultations.

All Other Fees

Other fees are for products and services other than those described under the headings Audit Fees, Audit-Related Fees and Tax Fees above.

The Audit Committee pre-approves all audit services to be provided to us by our independent auditors. The Audit Committee's policy regarding the pre-approval of non-audit services to be provided to us by our independent auditors is that all such services shall be pre-approved by the Audit Committee or by the Chairman of the Audit Committee, who must report all such pre-approvals to the Audit Committee at their next meeting following the granting thereof. Non-audit services that are prohibited to be provided to us by our independent auditors may not be pre-approved. In addition, prior to the granting of any pre-approval, the Audit Committee or the Chairman, as the case may be, must be satisfied that the performance of the services in question will not compromise the independence of the independent auditors.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

None

ITEM 16E. PURCHASE OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASES

The Company did not repurchase any common shares in the fiscal year ended December 31, 2009.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANTS

None

ITEM 16.G. CORPORATE GOVERNANCE

NASDAQ CORPORATE GOVERNANCE

Our common shares are quoted for trading on the NASDAQ Capital Market. Section 5615(a)(3) of the NASDAQ Marketplace Rules permits NASDAQ to grant exemptions to a foreign private issuer for the provisions of the Rule 5600 series, Rule 5250 (d), and Rules 5210(c) and 5255 related to qualitative listing requirements. We are organized under the laws of the Province of Alberta and our common shares are listed for trading on The Toronto Stock Exchange. We comply with the laws of the Province of Alberta and rules and regulations of The Toronto Stock Exchange, including rules related to corporate governance practices. A description of the significant ways in which our governance practices differ from those followed by domestic companies pursuant to the NASDAQ Marketplace Rules is as follows:

Shareholder Meeting Quorum Requirement: The NASDAQ minimum quorum requirement for a shareholder meeting under Section 5620(c) of the NASDAQ Marketplace Rules is one-third of the outstanding shares of common stock. In addition, a company listed on NASDAQ is required to state our quorum requirement in our bylaws. Our quorum requirement is set forth in our corporate bylaws. A quorum for our shareholder meeting is two persons present and being, or representing by proxy, members holding not less than 5% of the issued shares entitled to be voted at such meeting.

The foregoing is consistent with the laws, customs and practices in Canada and the rules of The Toronto Stock Exchange.

PART III

ITEM 17. FINANCIAL STATEMENTS.

We have elected to provide financial statements pursuant to Item 18.

ITEM 18. FINANCIAL STATEMENTS

Our financial statements are filed herewith as Exhibit 99.1 and are incorporated herein by reference.

ITEM 19. EXHIBITS.

The following exhibits are filed as part of this annual report:

	Constating Documents
1.1*	Articles of Incorporation
1.2*	By-laws
	Material Contracts
4.1**	Services Agreement, dated October 16, 2002, between the Company and its Senior Vice President, Clinical and Regulatory Affairs, George Gill
4.2***	Amending Agreement No. 1, dated January 6, 2005, to the Services Agreement between the Company and its Senior Vice President, Clinical and Regulatory Affairs, George Gill, dated October 16, 2001
4.3***	Employment Agreement, dated January 12, 2007, between the Company and its Vice President, Intellectual Property, Mary Ann Dillahunty
4.4***	Executive Employment Agreement, dated May 29, 2007, between the Company and its Chief Scientific Officer, Matthew Coffey
4.5***	Executive Employment Agreement, dated May 29, 2007, between the Company and its Chief Medical Officer, Dr. Karl Mettinger
4.6***	Executive Employment Agreement, dated May 30, 2007, between the Company and its Chief Financial Officer, Douglas Ball
4.7***	Executive Employment Agreement, dated June 6, 2007, between the Company and its Chief Executive Officer, Bradley Thompson
4.8***	Amending Agreement No. 1, dated December 3, 2007, to the Employment Agreement between the Company and its Vice President, Intellectual Property, Mary Ann Dillahunty, dated January 12, 2007
4.9****	Amendment No. 1, dated March 7, 2008, to the Executive Employment Agreement between the Company and its Chief Financial Officer, Douglas Ball, dated May 30, 2007

4.10****	Amendment No.1, dated March 7, 2008, between the Company and its Chief Scientific Officer, Matthew Coffey, dated May 29, 2007
4.11****	Amendment No. 1, dated March 7, 2008, to the Executive Employment Agreement between the Company and its Chief Executive Officer, Bradley Thompson, dated June 6, 2007
4.12****	Amendment No. 1, dated March 20, 2008, to the Employment Agreement between the Company and its Vice President, Intellectual Property, Mary Ann Dillahunty, dated January 12, 2007
4.13****	Amendment No. 1, dated March 28, 2008, to the Executive Employment Agreement between the Company and its Chief Medical Officer, Dr. Karl Mettinger, dated May 29, 2007
4.14****	Amendment No. 2, dated March 31, 2008, to the Services Agreement between the Company and its Senior Vice President, Clinical and Regulatory Affairs, George Gill, dated October 16, 2001
4.15****	Executive Employment Agreement, dated January 26, 2009, between the Oncolytics Biotech (U.S.) Inc. and its Chief Medical Officer, Dr. Karl Mettinger
4.16****	Executive Employment Agreement, dated January 22, 2009 between the Company and its Vice President, Intellectual Property, Mary Ann Dillahunty.
	Subsidiaries
8.0	List of subsidiaries
	Certifications
12.1	Certificate of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2	Certificate of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1	Certificate of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2	Certificate of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
	Documents Filed as a part of this Annual Report
99.1	Audited Annual Consolidated Financial Statements for the years ended December 31, 2009, 2008 and 2007, together with the report of the auditors thereon
99.2	Management's Discussion and Analysis for the years ended December 31, 2009, 2008 and 2007

(*) Previously filed with the SEC on Form 20-F dated June 14, 2002

(**) Previously filed with the SEC on Form 20-F dated June 27, 2003

(***) Previously filed with the SEC on Form 20-F dated March 23, 2008

(****) Previously filed with the SEC on Form 20-F dated March 6, 2009.

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Date: March 15, 2010

Oncolytics Biotech Inc.

/s/ Brad Thompson
Brad Thompson, Ph.D
Chief Executive Officer

/s/ Doug Ball
Doug Ball, CA
Chief Financial Officer