

**At Helix,
we are exploring
new directions
in preventing and treating
cancer.**

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Helix is well positioned to reach important 2007 milestones.



“We believe that we are on the verge of passing a number of key milestones in the quarters ahead, and that accomplishing these milestones will help enhance shareholder value by bringing us closer to realizing our commercial objectives.”

**Donald H. Segal, M.Sc., Ph.D.
Director, President & Chief Executive Officer**

Prior to co-founding Helix in 1995, Dr. Segal founded and managed two successful life science companies. These companies manufactured human diagnostic test kits for both the domestic and international markets. At Helix, Dr. Segal has led the management team on all fronts, including his founding role in the discovery and development of Helix's DOS47 initiative. Dr. Segal is also a member of the Board of Directors. Dr. Segal has served on the Biotechnology Panel for the Natural Sciences and Engineering Research Council of Canada as one of the representatives from the business sector involved in the research granting system.

“In 2007, highlights from our Topical Interferon Alpha-2b program will include reporting the results from our completed German Phase II cervical cancer preventative study, in addition to significantly advancing patient enrollment in our recently initiated Phase II trial in Sweden for an additional therapeutic application. At the same time, we look forward to the commercialization of our Biochip technology by our U.S. licensee, Lumera Corp.”



**John Docherty, M.Sc.,
Vice President, Corporate Development**

Prior to joining Helix in 1999, Mr. Docherty worked for companies including AstraZeneca and Apotex Inc. in the Regulatory Affairs divisions. Mr. Docherty also worked as a senior consultant with PriceWaterhouseCoopers' Pharmaceutical Consulting Group for several years, where he advised on the product and corporate development strategies of numerous multinational pharmaceutical companies. At Helix, Mr. Docherty is responsible for guiding the Company's pharmaceutical development programs and fostering its new business and corporate development initiatives. Mr. Docherty holds an M.Sc. in Pharmacology from the University of Toronto.

Forward-looking statements

This Annual Report contains forward-looking statements. Please see page 12 of this Annual Report for a description of such forward-looking statements and a discussion of material risks, uncertainties and other factors that could cause actual results to differ materially from a conclusion, forecast or projection in a forward-looking statement.



“We are actively working toward completing necessary pre-clinical and manufacturing development work on our lung cancer drug candidate L-DOS47. This will allow us to compile an Investigational New Drug Application as a key step in pursuing regulatory approval for human clinical testing.”

**Heman Chao, Ph.D.
Vice President, Research**

Dr. Chao received his Ph.D. in Biochemistry at Queen’s University in 1994. He completed a post-doctoral fellowship at the Protein Engineering Network Centre of Excellence (“PENCE”) at the University of Alberta. Subsequently, he was awarded an industrial post-doctoral fellowship by the Natural Sciences and Engineering Research Council of Canada (“NSERC”) to work at Sensium Technologies Inc. – a subsidiary of Helix BioPharma Corp. At Sensium, Dr. Chao was responsible for the development of Helix’s Biochip technology and managed its drug discovery programs. Today, Dr. Chao is Vice President of Research for Helix BioPharma Corp. responsible for heading its anti-cancer drug discovery initiatives, internal biomedical research and external research collaborations. Dr. Chao has co-authored numerous scientific publications and patents.

“In 2007, we intend to enhance our public profile while working with our strategic communications partners. These initiatives are intended to further showcase Helix’s technologies and innovations to the international scientific community and the global capital markets, which we believe, will help improve market liquidity.”



**Photios (Frank) Michalargias, CA
Chief Financial Officer**

Mr. Michalargias joined Helix in June of 2005 and possesses over 15 years of senior management experience in both public and private industry and is experienced in transition and growth management, strategic planning and the raising of debt and equity financing. Prior to his appointment with Helix BioPharma Corp, Mr. Michalargias served as CFO of AP Plasman Corporation. He holds a Commerce and Economics degree from the University of Toronto and is a Chartered Accountant.



“Our drug distribution business has recorded steady and profitable revenue growth over recent years. We are working diligently to ensure that this trend continues through 2007 and beyond.”

**William Chick, B.A.
President, Rivex Pharma Inc.**

Mr. Chick gained extensive sales and marketing experience with Bausch & Lomb and Allergan, prior to joining Helix BioPharma in 1997. He is responsible for the marketing and operations of Rivex Pharma Inc., a drug distribution subsidiary of Helix.

“2007 will see the continued implementation of our new corporate governance initiatives, which we established in 2006. We are committed to a corporate governance culture that builds upon the highest standards of ethical behavior while providing clear and transparent communication to all shareholders. In addition, we are conducting a search of new independent Board of Director candidates to further strengthen our Board.”



**Jerome McElroy, M.A.Sc., P.Eng.
Director and Chairman**

Prior to co-founding Helix in 1995, Mr. McElroy started several successful technology and pharmaceutical businesses including the MDS Health Group. He has extensive expertise in pharmaceutical technology transfer, clinical services and regulatory affairs. In 1988, he founded Intercon Pharma Inc., which amalgamated with International Helix Biotechnologies Inc. to form the Company. He has been Chairman of the Board of Directors since that time and was President from 1998 to 2004.

2007: A Pivotal Year

Dear Shareholders,

We have made significant progress on all fronts in fiscal 2006. Our achievements this year included advancements in both our clinical and preclinical development programs, continued revenue growth from Helix's drug distribution business and additional financing through several private placements.

The strength and experience of our entire management team has been instrumental in our progress this year and we are well positioned to meet a number of important value creating milestones in 2007.

Topical Interferon Phase II Clinical Study Results Expected; New Trial Underway

Throughout the year we continued to enroll and treat patients in our multi-centre Phase II clinical study for the treatment of women with human papilloma virus ("HPV") induced low-grade squamous intraepithelial lesions ("LSIL"), a precursor to cervical cancer. Subsequent to year-end, we announced the completion of treatment, with no serious adverse drug reactions reported. The study was conducted at the Friedrich-Schiller-University in Jena, Germany, and two centres at the Charité Berlin, one of the largest university hospitals in Europe. As well, a patient control population was studied in Hannover, Germany. We intend to report the results in early 2007 following the completion of all analytical procedures on patient samples collected during the study as well as final data analysis. Positive results from this study will facilitate the design of our late-stage clinical program.

We believe strongly in the broad utility of this product and during the year we received approval from Sweden's drug regulatory authority, the Medical Products Agency ("MPA"), to conduct a second Phase II clinical trial with Topical Interferon Alpha-2b, this time in patients with HPV-induced ano-genital warts (condylomata acuminata). For this trial, a total of 120 patients are expected to be enrolled, comparing treatment to placebo over an examination period of four months per patient. We contracted the services of Encorium Group Inc. to manage the trial and, subsequent to year-end, commenced patient recruitment. The trial is expected to be conducted through 2007 and completed during the 2008 calendar year, followed by reporting of the findings. Based on the large number of existing and untreated cases of HPV globally, we firmly believe that there is a significant opportunity for a Topical Interferon Alpha-2b product for these two initial indications. We also believe that there may prove to be potential value for the product in a number of additional therapeutic indications involving skin and mucosal tissues.

L-DOS47 Pre-Clinical Development Advancing

Following the identification of our lead clinical development candidate from our DOS47 initiative, L-DOS47 for lung cancer treatment, we worked quickly to conduct a series of laboratory investigations that demonstrated the anti-cancer capabilities of the conjugated L-DOS47 drug product. During fiscal 2006, we published selected scientific findings in the Journal of Experimental Therapeutics and Oncology and in a poster presentation at the 5th Annual Congress on Recombinant Antibodies in Zurich, Switzerland. We also initiated a formal pharmaceutical development program for L-DOS47, which is ongoing. This program includes a variety of animal toxicology studies, pharmacokinetic studies and further efficacy modelling, as well as ongoing work to scale-up and optimize a cGMP manufacturing process for the product. This work is a necessary precursor to advancing the product into human clinical testing.

Pending the successful outcome of the ongoing pre-clinical and manufacturing development work programs, we intend to begin preparation of a Phase I Investigational New Drug Application ("IND") in order to seek regulatory approval to commence human clinical testing in lung adenocarcinoma patients. Based on work completed to date, we believe that L-DOS47 may have potential as both a monotherapy and in combination with certain chemotherapeutic or even radiotherapeutic regimens.

During the year we also signed an agreement with the National Research Council ("NRC") to assist with the ongoing characterization of the lung cancer-specific antibody previously licensed to Helix for its L-DOS47 new drug candidate. We are also focusing some of our research efforts on identifying additional novel tumour targeting antibodies through our ongoing collaboration with the NRC in an effort to identify future DOS47 immunoconjugate development targets that will drive long-term value.

Ongoing Relationship with Lumera

Our relationship with Lumera progressed following the receipt of a license payment under the terms of our exclusive agreement for our Biochip technology. Although secondary to our cancer drug development initiatives, this relationship is important because it demonstrates our team's ability to successfully partner our technologies, with a view to commercialization. Using our technology, Lumera intends to launch the Biochip product in early 2007. This follows the placement of a number of beta instrument units in institutions including Harvard University, the Medical University of South Carolina and the Institute of System Biology. Lumera has also announced a successful analysis of antibodies by the Los Alamos National Laboratory using the technology. Lumera plans its launch to initially target the therapeutic antibody drug discovery market.

Continued Revenue Growth

Our success this year also extended to our operating businesses. In fiscal 2006, Helix reported revenue of \$3.9 million, up from \$3.7 million in 2005. The increase was the result of record product revenue of \$3.0 million generated by our drug distribution business, Rivex Pharma. License fees and royalties of \$0.8 million in fiscal 2006 reflect the success of our license for the Biochip technology to Lumera, in addition to royalty revenues from Klean-Prep™ sales through our European licensee Helsinn-Birex. We also generated R&D revenue from an agreement with Apotex Inc. through our PharmaDerm Laboratories subsidiary. Revenue generated by our operating subsidiaries continues to partially fund our ongoing R&D initiatives.

Improved Financial Flexibility

Over the past eighteen months, we have successfully completed a number of private placements for gross proceeds of \$16.6 million, despite difficult market conditions in the Canadian and global life sciences sectors. These additional resources have provided us with the resources necessary to help support our ongoing L-DOS47 pre-clinical program as well as to initiate a second Phase II clinical trial for our Topical Interferon Alpha-2b product.

Outlook

We are very excited at Helix's prospects for 2007 and we are focused on the opportunities which lie ahead. Through our efforts leading up to and throughout the past year, we believe that we are on the verge of passing a number of key milestones in the upcoming quarters. We also believe that accomplishing these milestones will help enhance shareholder value by bringing us closer to realizing our commercial objectives.

On the scientific front, we intend to focus on the completion of our advanced pre-clinical and clinical studies. In our Topical Interferon Alpha-2b program, this will include the reporting of results from our German Phase II study and advancing enrollment in our Phase II trial in Sweden. As well, we have actively begun to evaluate strategies to support late-stage international trials, pending the positive outcome of our ongoing clinical programs. For our L-DOS47 initiative, we will continue to advance our pre-clinical and cGMP manufacturing development work with a view to compiling a Phase I IND Application necessary to seek approval to commence human clinical testing.

In the year that lies ahead, we will continue to evaluate strategies to support our advancing stage of development and help raise Helix's profile globally. We will continue to showcase Helix's technologies and innovations to the international scientific community and the global capital markets, together with the help of our communications partners Noonan Russo and The Equicom Group.

With clinical activity levels escalating and our first human study results due in 2007, Helix is poised to take a significant step forward in its evolution and I look forward to keeping all stakeholders updated on our progress during the exciting times ahead.

Sincerely,



Dr. Donald H. Segal
Director, President and Chief Executive Officer



**1 in 10 women
has an HPV infection.
HPV is the major cause of
cervical cancer.**

Approximately 20 million people in the United States are currently infected with HPV. At least 50 percent of sexually active men and women acquire a genital HPV infection at some point in their lives. By age 50, at least 80 percent of women will have acquired a genital HPV infection at some time in their lives. About 6.2 million Americans get a new genital HPV infection each year. Approximately 30% of identified HPV types can lead to development of cervical cancer. The American Cancer Society estimates that about 9,710 women will develop invasive cervical cancer and about 3,700 women will die from this disease in the United States in 2006.

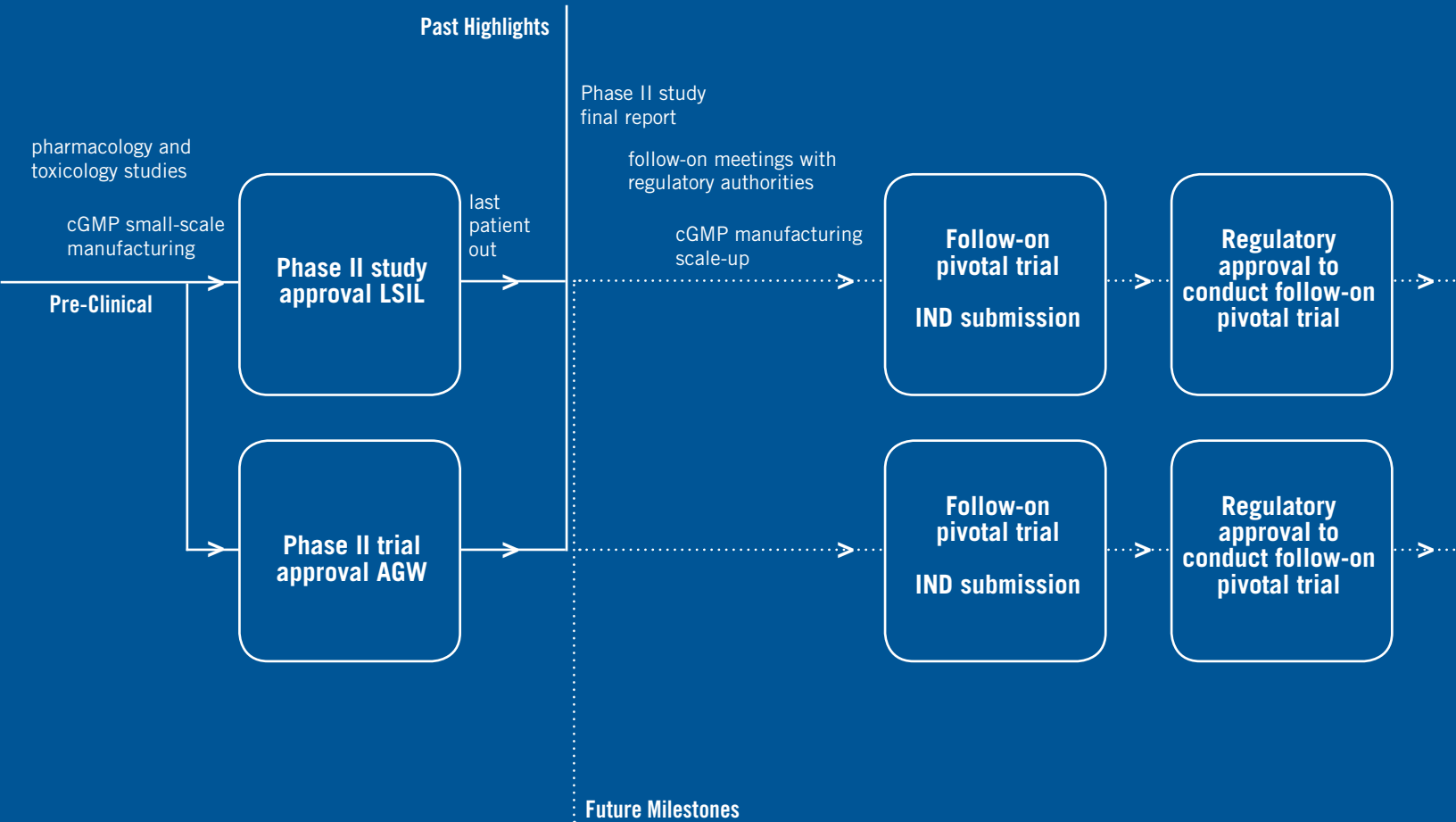
our direction:

Topical Interferon Alpha-2b

Helix is engaged in the clinical development of Topical Interferon Alpha-2b for the treatment of HPV-induced disease states. Interferon-alpha therapy has a long history of proven effectiveness against viral infection, including HPV. Injectable preparations of the interferon-alpha drug compound have been on the market in North America and Europe since the mid 1980s. Topical Interferon Alpha-2b incorporates the Company's advanced drug formulation technology, Biphaxis™, which is designed to facilitate dermal drug administration without harmful side effects or painful injections. The product is intended to broadly deliver potent drug therapy directly into the basal layers of the skin and mucosal tissues, combatting HPV infections where they manifest and propagate.

Topical Interferon Alpha-2b could potentially be considered for use against other conditions that may respond to interferon alpha-2b therapy delivered into skin or mucosal tissues including, for instance, actinic keratosis or basal cell carcinoma.

Topical Interferon Alpha-2b



The Company has completed patient treatment in a Phase II clinical study in Germany in patients with HPV-positive low-grade intraepithelial lesions (“LSIL”). The Company expects to complete analysis of all patient samples gathered throughout the course of the study as well as the data analysis portion of this study by the end of the 2006 calendar year, with results to be reported in early 2007.

In addition, the Company has received approval from Sweden’s drug regulatory authority, the Medical Products Agency (“MPA”), to conduct a second Phase II clinical trial of Topical Interferon Alpha-2b for an additional disease indication in patients with ano-genital warts (*condylomata acuminata*; “AGW”), who are positive for infection with HPV. A total of 120 patients are expected to be enrolled in this trial, comparing treatment to placebo over an examination span of four months per patient. The Company has commenced patient recruiting and expects the trial to be conducted through 2007 and completed during the 2008 calendar year, followed by reporting of the findings.

The 5-year survival rate for cancers of the lung is only 15%.

Although there are a number of different lung cancers, the most common and deadly type is adenocarcinoma of the lung, which accounts for upwards of 50% of all cases of the disease. Persons developing adenocarcinoma of the lung have a less than 10% five-year survival rate. Current treatment strategies for patients with adenocarcinoma of the lung have limited efficacy and, as evidenced by the high mortality rates, are generally considered to be palliative rather than curative. If detected early enough, surgical removal of the cancerous tissue is still a patient's best option. Inoperable adenocarcinomas of the lung are treated through a combination of one or more chemotherapeutic drugs and radiation therapy. Though these regimens can often delay progression of the disease, they generally lack the power to sufficiently destroy the cancerous tissues or avoid the ultimate fatal outcome of their growth and metastatic spread.

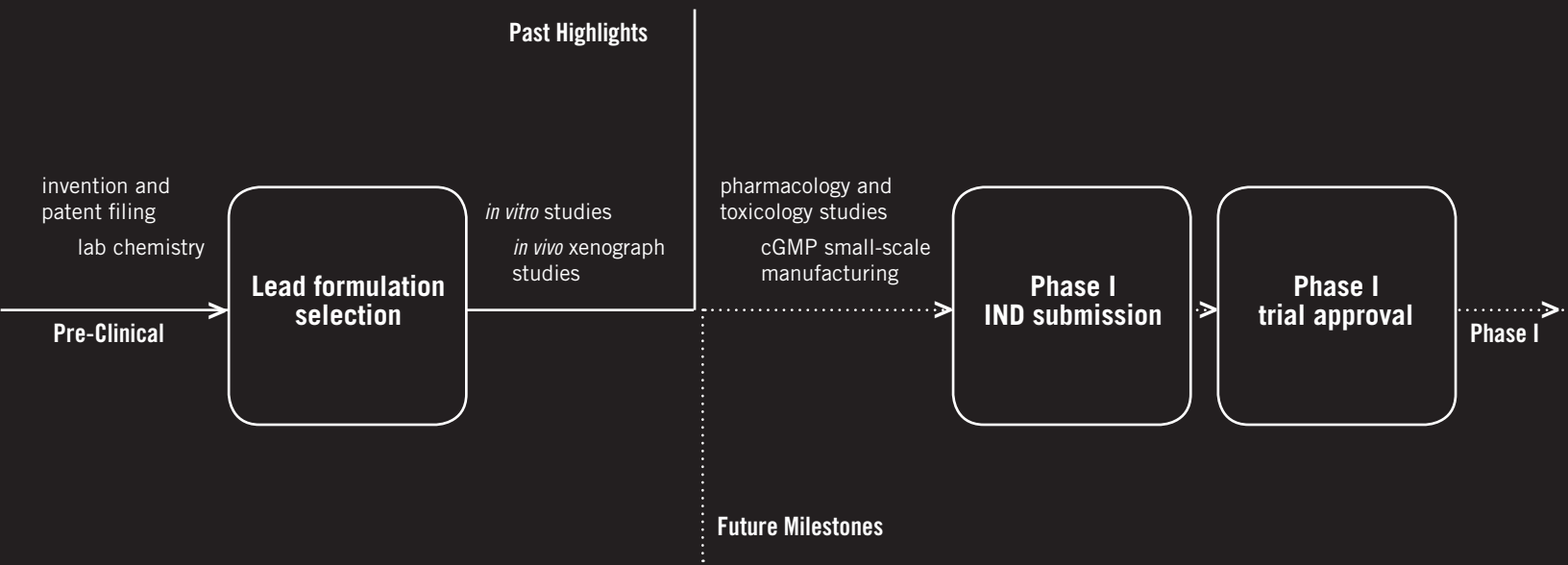


our direction: L-DOS47

Helix is developing an innovative approach for the destruction of lung cancer cells. L-DOS47 is designed to function by using a plant-derived substance called urease to repetitively act upon a natural substance in the body called urea to produce a potent cytotoxic effect through a biochemical enzyme reaction. L-DOS47 is designed to specifically target lung cancer cells in the body following systemic administration by combining the urease compound with a highly specialized antibody designed to specifically target an antigenic site predominantly associated with lung adenocarcinoma cells. Helix believes this approach will allow L-DOS47 to act without the harmful side effects that are common to many of today's chemotherapeutic drugs due to their unwanted toxic effects on healthy cells in the body.

L-DOS47 is currently under pre-clinical development in anticipation of filing for regulatory approvals to commence human clinical testing. Helix believes that L-DOS47 for lung cancer represents only the first in what could become a series of cancer type-specific drug products that could be developed by combining highly specific antibodies with the underlying DOS47 technology.

L-DOS47



Helix has conducted a series of laboratory investigations that demonstrate the potent anti-cancer capabilities of the L-DOS47 drug compound using well-established lung cancer laboratory models. The Company obtained a license to the antibody component of the L-DOS47 conjugate from the Institute for Biological Sciences of the National Research Council of Canada.

Helix plans to execute a defined work program with its L-DOS47, as required by international regulatory bodies, in order to pursue the necessary regulatory authorizations to conduct human clinical trials in patients with adenocarcinoma of the lung.

Disclaimer

This Annual Report is not an offer to sell or a solicitation of an offer to buy securities of Helix BioPharma Corp. This Annual Report has been compiled solely for the purpose of providing a general overview about the Company's management and operations in the last year, and is not to be relied upon for any other purpose, including investment purposes. It is subject to the more detailed information contained in the Company's public filings with securities regulatory authorities in Canada, including its latest Annual Information Form, which can be found at www.sedar.com.

Forward-Looking Statements

This Annual Report contains forward-looking statements. Forward-looking statements are statements that are not historical facts but instead include financial projections and estimates and their underlying assumptions; statements regarding plans, goals, objectives and expectations with respect to the Company's future business and operations, including its research, development and commercialization activities, and its future products, services, revenue, customers, partners, suppliers and sales; the impact of government regulation on the Company's operations; the Company's share of new and existing markets; general industry and macroeconomic market sizes and growth rates and the Company's anticipated performance relative to them; statements regarding future performance, and other information in future periods. Forward-looking statements can be identified by the use of forward-looking terminology such as "2007", "2008", "to reach", "to be", "ahead", "closer to realizing", "objectives", "look forward", "intend", "to continue", "to further", "to ensure", "believe", "if", "to conduct", "expected", "opportunity", "to seek", "to commence", "forward", "potential", "toward", "plans", "poised", "future", "beyond", "further", "next", "to develop", "new", or the negative thereof or any other variations thereon or comparable terminology referring to future events or results, or that events or conditions "will", "may", "could", "would", or "should" occur or be achieved, or comparable terminology referring to future events or results.

Forward-looking statements are statements about the future and are inherently uncertain, and the Company's actual results could differ materially from those anticipated in those forward-looking statements due to a variety of risks, uncertainties and other factors, including, without limitation: uncertainty of the Topical Interferon Alpha-2b clinical study results to be released in 2007 and the possibility that such results may be negative; uncertainty whether the Swedish clinical study will be undertaken or completed as planned or at all or will achieve expected results; the need for future clinical trials, the occurrence and success of which cannot be assured; the need for regulatory approvals, which approvals may not be obtained on acceptable terms or at all or may be withdrawn; research and development risks; uncertainty whether the L-DOS47 preclinical program will be completed as planned or at all; uncertainty whether an IND will be compiled or submitted for L-DOS47 as currently planned or at all, or if submitted, whether the Company will be permitted to undertake human testing; whether the manufacturing process for L-DOS47 can be scaled-up successfully or at all; manufacturing risks and the need to manufacture to regulatory standards; the need for performance by buyers of the Company's products; reliance by the Company on a few customers and a few suppliers; uncertainty regarding the Company's ability to generate projected sales volumes and product prices; uncertainty of the size and existence of a market opportunity for, and market acceptance of, the Company's products and those of its customers and licensees; the need to secure new contracts and new strategic relationships, which is not assured; intellectual property risks; marketing risks; uncertainty as to availability of raw materials on acceptable terms or at all; partnership/strategic alliance risks and in particular, the need for performance by the Company's licensees, Lumera Corporation and Helsinn-Birex; uncertainty whether Lumera will launch its product containing the Company's Biochip technology; product liability risks; the effect of competition; the risk of unknown side effects; the Company's need for additional future capital, which may not be available in a timely manner or at all; exchange rate fluctuations; environmental risks; political risks; the risk of technical obsolescence; the possibility that the Company will pursue additional development projects or other business opportunities; the risk of unanticipated expenses; market volatility; the need to attract and retain key personnel; and other factors that are discussed or identified in the Management Discussion and Analysis section of this Annual Report under the heading, "Risks and Uncertainties", as well as in the Company's latest Annual Information Form, any of which could cause actual results to vary materially from current results or the Company's anticipated future results. Forward-looking statements are based on the assumptions, beliefs, opinions and expectations of the Company's management at the time they are made, and the Company does not assume any obligation to update its forward-looking statement if those assumptions, beliefs, opinions or expectations, or other circumstances should change. For the reasons set forth above, investors should not place undue reliance on forward-looking statements. The Company does not assume any obligation to update any statement contained in this Annual Report.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION FOR THE YEAR ENDED JULY 31, 2006

The following Management's Discussion and Analysis (MD&A) should be read in conjunction with Helix BioPharma Corp's (the "Company" or "Helix") audited consolidated financial statements and related note disclosure for the year ended July 31, 2006, which have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and depict values that are in Canadian currency unless otherwise noted.

This MD&A contains certain forward-looking statements based on current expectations that are subject to risks and uncertainties beyond management's control and could cause actual results to differ materially from those expressed herein. Risk factors and uncertainties are discussed under the headings "Risks and Uncertainties" and "Forward-looking Statements" as well as in the Company's Annual Information Form. Helix undertakes no obligation to revise forward-looking statements in light of future events.

The Chief Executive Officer and Chief Financial Officer of the Company have evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the year ended July 31, 2006 and have concluded that the Company's disclosure controls and procedures provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, was made known to them and reported as required, particularly during the period in which the annual filings were being prepared.

Management is also responsible for the design of internal controls over financial reporting within the Company in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Management has evaluated the design of the Company's internal controls and procedures over financial reporting as of the end of the period covered by the annual filings, and believes the design to be sufficient to provide such reasonable assurance.

The Company has identified the need for improvement with regards to segregation of duties and matters of taxation. These matters and their related risks are not uncommon in a company of Helix's size. To date, Helix has utilized external advisors and taken such other action as it has considered appropriate to minimize these risks. In addition, management is taking appropriate steps to further analyze and improve these areas.

During fiscal 2006, the Company made changes to its systems of internal controls that did not materially affect internal control over financial reporting.

Additional information relating to the Company, including its Annual Information Form, can be found on the Company's website, www.helixbiopharma.com and/or on SEDAR at www.sedar.com.

OVERVIEW

The Company has principal business activities focused on research and development of biopharmaceuticals, primarily in the areas of cancer prevention and treatment. In addition, the Company earns revenues from various commercial activities, including its drug distribution business in Canada and international licensing arrangements. To date, cash flows from these activities and from the issuance of its common shares have financed Helix's research and development initiatives.

As the Company has several projects in the research and development stage, it expects to incur additional losses and will require additional financial resources. The continuation of the Company's research and development activities and the commercialization of its products is dependent upon the Company's ability to successfully complete its research programs, protect its intellectual property and finance its cash requirements on an ongoing basis. It is not possible to predict the outcome of future research and development activities or the financing thereof.

Helix is committed to exploring new approaches to the development of cancer therapeutics. Helix's vision is to develop a portfolio of effective new anti-cancer therapeutics based on its innovative technologies and bring these products to patients worldwide.

Topical Interferon Alpha-2b

Topical Interferon Alpha-2b is currently being developed for the treatment of early-stage cervical dysplasia and ano-genital warts caused by Human Papilloma Virus ("HPV") infections. It is a topical preparation that is designed to be easily self-applied to HPV-infected tissues in order to deliver interferon alpha-2b into the skin/mucosa.

In addition to the use of Topical Interferon Alpha-2b as a treatment for HPV-induced cervical and ano-genital lesions, Helix believes that there is excellent potential to develop the product for additional indications. Specifically, injectable interferon alpha-2b therapy has already been indicated for, or experimentally tested against, other widespread dermatological disease states including anal dysplasia, Kaposi's sarcoma, actinic keratinosis, basal cell carcinoma and malignant melanoma. In contrast to injectable administration, Helix believes that its topical preparation could conceivably offer a superior means of delivering potent interferon alpha-2b therapy for the treatment of conditions such as these.

On November 1, 2004, the Company announced the commencement of a Phase II clinical study at the Friedrich-Schiller-University of Jena, a prominent German university hospital, for its Topical Interferon Alpha-2b. The study's main purpose is to evaluate the efficacy and safety of Topical Interferon Alpha-2b in the treatment of women with low-grade squamous intraepithelial lesions ("LSIL") that are positive for HPV infection. LSIL represents the mild-to-moderate forms of cervical dysplasia which may progress to cervical cancer in women. On June 2, 2005, the Company announced the opening of an additional two German sites for this Phase II clinical study, at the Charité Berlin, one of the largest university hospitals in Europe and shortly thereafter, opened an additional site in Hannover, Germany in order to enroll patients for the purposes of an un-treated, comparator control population. The Company expects to complete the data analysis by the end of the 2006 calendar year, followed by reporting.

On September 12, 2005 the Company announced it had received approval from Sweden's drug regulatory authority, the Medical Products Agency (MPA), to conduct a Phase II clinical trial of Topical Interferon Alpha-2b for an additional disease indication in patients with ano-genital warts (condylomata acuminata), who are positive for infection with HPV. The Swedish trial is planned to be a multi-center, double-blind, randomized placebo-controlled trial of the safety and effectiveness of Topical Interferon Alpha-2b in patients with HPV-positive ano-genital warts. This trial will involve a team of investigators in multiple centres in Sweden. The Company has most recently contracted the services of a contract research organization to manage the trial in Sweden, and expects the trial to be completed sometime in or around the middle of the 2008 calendar year.

L-DOS47

Helix's L-DOS47 is a new drug in development that offers an innovative approach to the treatment of lung cancer. L-DOS47 is unlike any cancer therapeutic on the market today. L-DOS47 is designed to function by using a plant-derived compound called urease to act upon a natural substance in the body called urea in order to produce a potent cancer cell killing effect. Its pharmacological effect is based on a biochemical enzyme reaction, whereby the urease compound reacts with the naturally occurring urea in a continuous manner.

Helix commenced development of the concept behind L-DOS47 in 2003, when Helix first began working with the urease compound without the addition of the lung cancer-specific antibody entity.

On May 2, 2005, the Company announced the identification of L-DOS47 as a potential new therapeutic under development for the treatment of lung cancer. L-DOS47 represents Helix's lead product from its novel DOS47 cancer therapeutic program. The identification of this lead product followed with the signing of an exclusive worldwide license with the National Research Council of Canada ("NRC") to combine DOS47 with an antibody developed by the NRC, to target cancerous tissues of the lung. L-DOS47 for lung cancer is an example of how DOS47 can act as a therapeutic platform for other cancers once an appropriate targeting antibody or agent is chosen.

During fiscal 2006, the Company published selected scientific findings on DOS47 (urease) via a publication in the Journal of Experimental Therapeutics and Oncology (Volume 5, Number 2, 2005, pp 93-99) and a poster presentation at the 5th Annual Congress on Recombinant Antibodies Conference in Zurich, Switzerland. During the year, the Company contracted QSV Biologics to develop a cGMP

manufacturing process for L-DOS47 and signed an agreement with the NRC, to assist with the ongoing characterization of the lung specific antibody previously licensed to Helix for its L-DOS47 new drug candidate. The Company is also focusing some of its research efforts in identifying additional novel tumour targeting antibodies through its ongoing collaboration with the NRC.

Ultimately, the Company believes that L-DOS47 may possibly have multiple clinical applications. For instance, in addition to the monotherapy potential of L-DOS47, it may be possible to combine L-DOS47 therapy with certain chemotherapeutic or even radiotherapeutic regimens whereby the intratumoral microenvironmental effects of L-DOS47 therapy would act to potentiate the effects of the concomitant therapy. However, the possibility for chemotherapeutic and/or radiotherapeutic potentiation by L-DOS47 treatment remains to be evaluated.

The Company expects to submit an Investigational New Drug (IND) filing in order to seek approval to commence human clinical trials with L-DOS47, likely during the latter half of the 2007 calendar year.

Biochip/Heterodimer Protein Technology

On January 25, 2005, the Company announced that it had entered into an exclusive licensing agreement with Lumera Corporation ("Lumera") for the commercialization of Helix's Biochip Technology. The Company's Heterodimer Protein Technology has been developed for use in biochips and associated processes for characterizing disease related proteins.

On February 10, 2006, the Company announced the receipt of another milestone payment from the biochip license agreement with Lumera.

RESULTS FROM OPERATIONS

Net Loss

For the year ended July 31, 2006, the Company recorded a net loss of \$6,939,000 or \$0.22 per common share and represents a decrease of \$686,000 when compared to the fiscal year ended July 31, 2005, when the Company recorded a net loss \$7,625,000 or \$0.28 per common share.

Overall revenues increased in fiscal 2006 and were mainly the result of higher product revenues of Orthovisc[®] sales in Canada and increased research and development contract services for Apotex Inc. ("Apotex"). Higher product revenues and research and development contract revenue were offset by lower royalty revenues from the rate reduction for Klean-Prep[™] sales in Europe and lower revenues from the Company's sub-licensing arrangement of its Biochip technology to Lumera Corporation ("Lumera"). Product cost of sales benefited from the continuously improving Canadian dollar in fiscal 2006, resulting in improved product margins. Overall expenses in fiscal 2006, were marginally higher than those in fiscal 2005, with higher research and development, operating expenses and stock based compensation being offset by reductions in income taxes, amortization for intangible and capital assets and a write-down of intangibles in the previous year versus nil in fiscal 2006.

Revenues

Revenues for the year ended July 31, 2006 totalled \$3,965,000 and represent an increase of \$233,000 or 6.2% when compared to total revenues for the previous year ended July 31, 2005 of \$3,732,000.

Product Revenue

Product revenues totalled \$3,012,000 in fiscal 2006 and represent 76.0% (2005 - 65.8%) of revenues. When compared to fiscal 2005, product revenues increased by \$556,000 or 22.6% in fiscal 2006. As in the previous year, the increase in product revenues in fiscal 2006 is mainly the result of increased Orthovisc[®] revenues.

License fees and royalties

License fees and royalties totalled \$773,000 in fiscal 2006 and represent 19.5% (2005 - 33.1%) of revenues. When compared to fiscal 2005, license fees and royalties decreased by \$461,000 or 37.4%.

These license fees and royalties were comprised of royalties related to sales of Klean-Prep™, by Helsinn-Birex, and license fees under the Company's license of its Biochip technology to Lumera. The royalty rate from Helsinn-Birex was reduced in half effective January 1, 2005 with fiscal 2006 reflecting the reduced rate for the entire fiscal period. The majority of the lower license fee and royalty revenue in fiscal 2006 is attributable to the reduced royalty rate on sales of Klean-Prep™.

Research and development contracts

In February 2005, the Company, through its wholly owned subsidiary, PharmaDerm Laboratories ("PharmaDerm"), entered into an agreement with Apotex, to identify and characterize a lead formulation for Apotex's line of topical therapeutic products. As at July 31, 2006, one last milestone remains to complete the project. Management believes this milestone will be completed by the Company's second quarter of fiscal 2007. Research and development contract revenues totalled \$180,000 in fiscal 2006 (2005 - \$42,000) and represent only 4.5% (2005 - 1.1%) of revenues.

Cost of sales and margins

Cost of sales totalled \$1,341,000 in fiscal 2006 (2005 - \$1,190,000) and were higher in the year by \$151,000. Cost of sales as a percentage of product revenue was 44.5% (2005 - 48.5%). Product cost of sales benefited from the continuously improving Canadian dollar in fiscal 2006, resulting in improved product margins. As a result, dollar product margins in fiscal 2006 increased by \$405,000.

Research & development

Research and development costs in fiscal 2006 totalled \$3,224,000 (2005 - \$2,853,000). Included in this amount was a cash credit of \$163,000 resulting from Scientific Research and Experimental Development ("SR&ED") tax claims (2005 - \$135,000). Excluding the SR&ED tax claims, research and development costs for fiscal 2006 totalled \$3,387,000 (2005 - \$2,988,000) and represents an increase of \$399,000 when compared to fiscal 2005. This increase reflects the Company's increased scientific and patent activity surrounding L-DOS47 as well as the ongoing costs of conducting clinical trials of the Topical Interferon Alpha-2b trials in Europe.

The Company expects to complete the data analysis for its German Phase II clinical study of Topical Interferon Alpha-2b in patients with low-grade squamous intraepithelial lesions, who are positive with HPV, by the end of the 2006 calendar year, followed by reporting. The Company is also in the early stages of conducting a Phase II clinical trial in Sweden of its Topical Interferon Alpha-2b in patients with ano-genital warts, who are positive with HPV. The Company expects this trial to be completed in or around the middle of the 2008 calendar year.

The Company expanded its research and development activities on L-DOS47 during the year with the publication of selected scientific findings, the signing of an agreement to develop a cGMP manufacturing process for L-DOS47 and the signing of an agreement with NRC to continue to characterize the lung cancer-specific antibody component of L-DOS47 as well as to continue to work to identify potential additional tumour-targeting antibodies for conjugation with Helix's DOS47 compound. During fiscal 2007, the Company expects to further expand upon the development of its L-DOS47 drug candidate by completing a series of pharmacokinetic, toxicology and further efficacy modeling studies in animals, as well as by continuing work to scale-up and optimize the cGMP manufacturing process. Following this, likely during the latter half of the 2007 calendar year, the Company expects to submit an Investigational New Drug (IND) filing in order to seek approval to commence human clinical trials with L-DOS47.

Operating general and administration

Operating, general and administration expenses in fiscal 2006 totalled \$3,866,000 (2005 - \$3,710,000) and represent an increase of \$156,000 when compared to fiscal 2005. This increase is mainly attributable to higher employee wages, agent commissions and insurance which were offset by lower consulting, legal and audit fees.

Amortization of intangible and capital assets

Amortization of intangible assets in fiscal 2006 totalled \$594,000 (2005 - \$1,244,000). A certain intangible asset was fully amortized in the fiscal 2006, resulting in the lower amortization expense both in the fiscal year and on a go forward basis. Intangible assets are amortized on a straight line basis.

Amortization of capital assets in fiscal 2006 totalled \$315,000 (2005 - \$330,000) and represents a decrease of \$15,000 when compared to fiscal 2005. The lower amortization expense of capital assets is the result of lower capital asset purchases during the 2006 fiscal year.

Stock-based compensation

Stock-based compensation expense in fiscal 2006 totalled \$1,710,000 (2005 - \$1,470,000) and represents an increase of \$240,000. During the 2006 fiscal year, the Company granted options totalling 931,000 (2005 - 1,151,500), with a fair value of \$1,658,000 (2005 - \$1,647,000). The unvested stock options as at July 31, 2006 of 63,889 (July 31, 2005 - 100,000) will be expensed equally over the remaining vesting period of approximately two years.

Interest income

Interest income in fiscal 2006 totalled \$270,000 (2005 - \$137,000) and represents an increase of \$133,000. Higher cash balances invested in short-term investments attributed to the higher interest income in fiscal 2006.

Foreign exchange loss

Foreign exchange losses in fiscal 2006 totalled \$16,000 (2005 - \$78,000) and represent a reduction of \$62,000 when compared to the foreign exchange losses in fiscal 2005. Foreign exchange gains were realized from Euro and US dollar denominated purchases of product sold in Canada. These exchange gains were offset by the foreign currency translation of the Company's integrated foreign operation in Europe. The net assets of the Company's integrated foreign operation in Europe consists mainly of cash and cash equivalents, denominated in Euro currency and are used to fund clinical trials of the Topical Interferon Alpha-2b trials in Europe.

Write down of intangible assets

Intangible asset write downs in fiscal 2006 were nil (2005 - \$428,000). In the fourth quarter of fiscal 2005, the Company exercised its right to terminate a research collaboration program for prostate cancer. As a result, the carrying value of the related intellectual property became impaired and was written down to a nominal value.

Income taxes

Income tax expense in fiscal 2006 totalled \$108,000 (2005 - \$191,000) and represents a decrease of \$83,000 when compared to the income tax expense in fiscal 2005. Income taxes are attributable to the Company's operations in Europe. Lower royalty revenue from the reduced royalty rate on sales of Klean-Prep™, resulted in lower income and therefore lower income tax expense in fiscal 2006.

CASH FLOW

Operating activities

Net loss from operations totalled \$6,939,000 in fiscal 2006 (2005 - \$7,625,000) and represents a decrease of \$686,000 when compared to the net loss from operations in fiscal 2005. Adjusting for non-cash and working capital items, the cash used in operating activities for fiscal 2006 totalled \$4,080,000 (2005 - \$4,714,000) and represents a decrease of \$634,000 when compared to the cash used in operating activities for fiscal 2005. On a monthly basis, this represents an average monthly cash burn of \$340,000 (2005 - \$393,000).

Financing activities

Financing activities provided additional cash of \$8,786,000 (2005 - \$5,214,000) and represents an increase of \$3,572,000 when compared to cash provided from financing activities in fiscal 2005. Share purchase options were exercised in fiscal 2006 providing cash proceeds of \$12,000 (2005 - nil) and the Company completed two rounds of private placement financing resulting in net proceeds of \$8,796,000 (2005 - \$5,238,000), after share issue costs.

Investing activities

Investing activities in fiscal 2006 represented a use of cash totaling \$4,428,000 while in fiscal 2005 investing activities represented a source of cash totaling \$111,000. The Company maintains excess funds in short term investments and redeems these funds as required for its daily operating requirements. The decrease in investing activity is mainly reflected in the Company purchasing short term investments totaling \$4,170,000 in fiscal 2006 compared to a net redemption of \$516,000 in fiscal 2005. Capital purchases in fiscal 2006 totalled \$258,000 (2005 - \$405,000) and represent a decrease of \$147,000. The majority of capital purchases in the year went towards scientific equipment and computers to support research activities related to L-DOS47.

LIQUIDITY AND CAPITAL RESOURCES

Since inception, the Company has financed its operations from public and private sales of equity, the exercise of warrants and stock options, interest income on funds available for investment, government grants and investment tax credits.

As at July 31, 2006, the Company had cash and cash equivalents, comprised of short-term investments totalling \$11,032,000 (2005 - \$6,600,000) and represents an increase of \$4,432,000 when compared to cash and cash equivalents on hand at July 31, 2005.

The total number of common shares issued and outstanding at July 31, 2006 was 32,685,335 (2005 - 27,183,726). In November and October of 2005, the Company completed two separate financings, resulting in the total issuance of 5,495,609 common shares and 5,495,609 common share purchase warrants, for total gross proceeds of \$9,523,000. Of this amount, \$443,000 was allocated to the value of the common share purchase warrants. Share issue costs totalled \$727,000. See also, "Outlook".

OUTSTANDING SHARE DATA

As at October 26, 2006, the Company had outstanding 36,335,335 common shares, warrants to purchase up to 11,335,609 common shares and incentive stock options to purchase up to 3,282,500 common shares.

Subsequent to July 31, 2006 and prior to the filing of this MD&A, the Company announced the completion of a private placement, issuing 3,650,000 units at \$1.93 per unit, for gross proceeds of \$7,044,500. Each unit consists of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one common share at a price of \$2.70 until March 31, 2008. In addition, 225,000 previously issued share purchase warrants expired unexercised, on September 22, 2006.

Summary of Quarterly Financial Information

The following table summarizes the Company's unaudited quarterly consolidated financial information for fiscal years ended July 31, 2006 and 2005. This data has been derived from the unaudited consolidated financial statements, which were prepared on the same basis as the annual consolidated financial statements and, in the Company's opinion, includes all adjustments necessary, consisting solely of normal recurring adjustments, for the fair presentation of such information.

Revenues (thousand \$)			Net loss (thousand \$)			Net loss per share (\$)		
	2006	2005		2006	2005		2006	2005
Q1	906	978	Q1	(1,451)	(1,353)	Q1	(0.05)	(0.05)
Q2	1,105	883	Q2	(1,311)	(1,513)	Q2	(0.04)	(0.06)
Q3	1,099	984	Q3	(1,360)	(1,175)	Q3	(0.04)	(0.04)
Q4	855	887	Q4	(2,817)	(3,584)	Q4	(0.09)	(0.13)
Year	3,965	3,732	Year	(6,939)	(7,625)	Year	(0.22)	(0.28)

The increase in revenue over the last two fiscal years is mainly the result of increased Orthovisc[®] revenues. The reduced net loss in fiscal 2006 is the result of higher research and development and operating expenses along with stock based compensation being offset by reductions in income taxes,

amortization for intangible and capital assets and a write-down of intangibles in the previous year versus nil in fiscal 2006.

The reduced loss for the fourth quarter of fiscal 2006 versus the fourth quarter of fiscal 2005 is the result of lower foreign exchange losses, reduced amortization expense arising from intangible assets which were fully amortized by the end of the third quarter in fiscal 2006 and a write-down of non-core intangible assets in the fourth quarter of fiscal 2005 versus nil in the fourth quarter of fiscal 2006.

SELECTED FINANCIAL INFORMATION

Summary of Annual Financial Information

The following financial information is from the Company's fiscal years ended July 31:

(thousand \$, except for shares and per share data)			
	2006	2005	2004
Revenues	3,965	3,732	2,971
Expenses			
Cost of sales	1,341	1,190	895
Research and development	3,224	2,853	2,611
Operating, general and admin	3,866	3,710	3,360
Amortization of intangibles	594	1,244	1,244
Amorization of capital assets	315	330	291
Stock-based compensation	1,710	1,470	252
Interest income	(270)	(137)	(136)
Foreign exchange loss	16	78	10
Write-down of intangibles	-	428	-
	10,796	11,166	8,527
Loss before income taxes	(6,831)	(7,434)	(5,556)
Income tax provision	(108)	(191)	(246)
Loss for the year	(6,939)	(7,625)	(5,802)
Loss per share			
- basic	(0.22)	(0.28)	(0.24)
- diluted	(0.22)	(0.28)	(0.24)
Weighted average number of common shares outstanding	31,409,495	26,959,055	24,669,632
Total assets	15,469	11,450	12,510
Long-term debt	-	18	37

The increase in revenue over the last three fiscal years reflects increases in product revenues, license and royalty fees and contract research revenue. Net loss in the last three fiscal years has ranged between \$5,802,000 and \$7,625,000 with the fluctuations mainly attributable to increases in operating, general and administration expenditures, amortization of intangibles, stock-based compensation expense and a write-down in intangible assets in 2005.

Contractual commitments

(thousand \$)	Total	< 1 year	1 to 3 years	4 to 5 years	> 5 years
Operating leases (i)	596	249	347	-	-
Product purchase obligations (ii)	2,277	660	1,617	-	-
Research & development contracts (iii)	1,447	1,062	225	20	140
Total	4,320	1,971	2,189	20	140

- i) Office, warehouse and research facilities
- ii) Orthovisc® purchase commitments
- iii) Research and development contract commitments related to R&D projects initiated via contract or agreement. Payment commitments are made when the relevant work is completed as per contract or agreement

Off-balance sheet arrangements

The Company does not have any off-balance sheet arrangements.

Related party transactions

The Company pays Dr. Marianna Foldvari, a Director of a subsidiary, \$2,500 per month for consulting service.

In February 2005, the Company, through its wholly owned subsidiary, PharmaDerm, entered into an agreement with Apotex to identify and characterize a lead formulation for Apotex's topical therapeutic product line. Apotex is considered a related party, as a director of the Company is also the President and Chief Operating Officer of Apotex. The Company received \$180,000 (2005 - \$92,000) from Apotex during the year in respect to contract services for research and development work, of which \$180,000 (2005 - \$42,000), was recognized as revenue.

During the fiscal year ended 2006, the Company paid \$193,000 (2005 - \$231,000) to Cawkell Brodie Glaister LLP, Business Lawyers, legal counsel to the Company, for legal services rendered; and nil (2005 - \$24,000) to The PGL Partnership for accounting services rendered. Kenneth A. Cawkell, a Director of the Company, is a partner of Cawkell Brodie Glaister LLP, Business Lawyers. Effective March 31, 2006, Connor Gunne, a Director of the Company, was no longer a partner of The PGL Partnership.

(thousand \$)	2006	2005
Research and development expense paid to a director of a subsidiary	30	30
Professional, legal and consulting fees to directors, partnerships and/or companies in which directors have a substantial interest	193	255
Research and development contract revenue with Apotex Inc.	180	42

OUTLOOK

As at July 31, 2006 the Company's working capital was \$10,900,000 (2005 - \$6,688,000). The working capital position improved on October 11, 2006 following the completion of a private placement, for gross proceeds of \$7,044,500. After taking into consideration the improved working capital resulting from the successful completion of the private placement, the decrease in royalty rate from the Helsinn-Birex license, planned expenditures for research and development for the Phase II clinical study of the Company's Topical Interferon Alpha-2b, research expenditures relating to the Company's novel anti-cancer therapeutic, L-DOS47, and marketing expenditures relating primarily to Orthovisc®, the Company expects that its working capital will be sufficient to finance operations through to July 2008. The Company will continue to seek additional funding, primarily by way of equity offerings, to carry out its business plan and to minimize risks to its operations. The market, however, for equity financings for companies such as Helix is challenging, and there can be no assurance that additional funding by way of equity financing will be available. The failure of the Company to obtain additional funding on a timely

basis may result in the Company reducing or delaying one or more of its planned research, development and marketing programs and reducing related personnel, any of which could impair the current and future value of the business. Any additional equity financing, if secured, may result in significant dilution to the existing shareholders at the time of such financing. The Company may also seek additional funding from other sources, including technology licensing, co-development collaborations, and other strategic alliances, which, if obtained, may reduce the Company's interest in its projects or products. There can be no assurance, however, that any alternative sources of funding will be available.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company prepares its audited consolidated financial statements in accordance with Canadian generally accepted accounting principles. These accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the audited consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods.

Significant areas requiring the use of estimates are stock based compensation, the assessment of impairment in the value of investments, determination of useful lives and assessment of impairment in the value of long-lived assets, such as capital assets, acquired technology under development and patents, determination of fair value of stock options granted for estimating stock-based compensation expense, the allocation of proceeds to share purchase warrants and the determination of valuation allowance of future tax assets. In determining these estimates, the Company relies on assumptions regarding applicable industry performance and prospects, as well as general business and economic conditions that prevail and are expected to prevail. These assumptions are limited by the availability of reliable comparable data and the uncertainty of predictions concerning future events. The Company believes that the estimates and assumptions upon which it relies are reasonable based upon information available at the time that these estimates and assumptions are made. Actual results could differ from these estimates.

CHANGES IN ACCOUNTING POLICIES

Variable Interest Entities

Effective August 1, 2005, the Company adopted the recommendations of CICA Handbook Accounting Guideline 15, "Consolidation of Variable Interest Entities" ("AcG-15"). Variable interest entities ("VIEs") refer to those entities that are subject to control on a basis other than ownership of voting interests. AcG-15 provides guidance for identifying VIEs and criteria for determining which entity, if any, should consolidate them. The adoption of AcG-15 did not have any effect on the financial position, results of operations or cash flows in the current period or the prior period presented.

Financial Instruments – Disclosure and Presentation

Effective August 1, 2005, the Company adopted the amended recommendations of CICA Handbook Section 3860, "Financial Instruments – Disclosure and Presentation ("Section 3860"). Section 3860 requires that certain obligation that may be settled at the issuer's option in cash or cash equivalent value by a variable number of the issuer's own equity instruments be presented as a liability. The Company has determined that there is no impact on the financial statements resulting from the adoption of the amendments to Section 3860 either in the current period or the prior period presented.

Non-Monetary Transactions

In June 2005, the CICA released a new Handbook Section 3831, "Non-monetary Transactions" ("Section 3831"), effective for all non-monetary transaction initiated in periods beginning on or after January 1, 2006. The standard requires all non-monetary transactions to be measured at fair values unless they meet one of the four very specific criteria. Commercial substance replaces culmination of the earnings process as the test for value measurement. A transaction has commercial substance if it causes an identifiable and measurable change in the economic circumstances of the entity. Commercial substance is a function of the cash flows expected by the reporting entity. The Company has not entered into any non-monetary transaction and as such, Section 3831 is not applicable.

RECENT CANADIAN ACCOUNTING PRONUCEMENTS NOT YET ADOPTED

Financial instruments – recognition and measurement

In January 2005, the CICA released new Handbook Section 3855, “Financial Instruments – Recognition and Measurement” (“Section 3855”), effective for annual and interim periods beginning on or after October 1, 2006. This new section prescribes when a financial instrument is to be recognized on the balance sheet and at what amount, sometimes using fair value and other times using cost-based measures. It also specifies how financial instrument gains and losses are to be presented and defines financial instruments to include accounts receivable and payable, loans, investments in debt and equity securities, and derivative contracts. The Company has not yet determined the impact of adopting Section 3855 on its consolidated results of operations or financial position.

Comprehensive income and equity

In January 2005, the CICA released new Handbook Section 1530, “Comprehensive Income”, and Section 3251, “Equity”, effective for annual and interim periods beginning on or after October 1, 2006. Section 1530 establishes standards for reporting comprehensive income. The section does not address issues of recognition or measurement for comprehensive income and its components. Section 3251 establishes standards for the presentation of equity and changes in equity during the reporting period. The requirements in this section are in addition to Section 1530. The Company has not yet determined the impact of adopting Sections 1530 and 3251 on its consolidated results of operations or financial position.

Hedges

In April 2005, the CICA released a new Handbook Section 3865, “Hedges”, effective for fiscal periods beginning on or after October 1, 2006. Section 3865 establishes standards for when and how hedge accounting may be applied. Hedge accounting is optional. The Company has not yet determined the impact of adopting Section 3865 on its consolidated results of operations or financial position.

All of these new recommendations are applicable to the Company effective August 1, 2007.

Risks and Uncertainties

Helix is subject to risks, events and uncertainties, or “risk factors”, associated with being both a publicly traded company operating in the biopharmaceutical industry, and as an enterprise with several projects in the research and development stage. As a result of these risk factors, reported financial information may not necessarily be indicative of future operating results or of future financial position. The Company cannot predict all of the risk factors, nor can it assess the impact, if any, of such risk factors on the Company’s business or the extent to which any factor, or combination of factors, may cause future results or financial position to differ materially from either those reported or those projected in any forward-looking statements. Accordingly, reported financial information and forward-looking statements should not be relied upon as a prediction of future actual results. Some of the risks and uncertainties affecting the Company, its business, operations and results include, but are not limited to: the Company’s need for additional funds, which may not be available on acceptable terms or at all; the Company’s dependence on a few customers and a few suppliers, the loss of any of which would negatively impact the Company’s operations; the need to develop and commercialize new products which will require further time consuming and costly research and development, the success of which cannot be assured; the Company’s dependence on third parties for cGMP grade raw materials, other materials and for research, development and commercialization assistance and support; the Company’s dependence on assurances from third parties regarding licensing of proprietary technology owned by others; government regulation and the need for regulatory approvals for both the development and commercialization of products, which are not assured; uncertainty that the Company’s products will be accepted in the marketplace; rapid technological change and competition from pharmaceutical companies, biotechnology companies and universities, which may make the Company’s technology or products obsolete or uncompetitive; the need to attract and retain skilled employees; risks associated with claims of infringement of intellectual property and of proprietary rights; risks inherent in manufacturing (including upscaling) and marketing; product liability and insurance risks; risks associated with clinical trials, including the possibility that trials may be terminated early, delayed or unsuccessful; exchange rate fluctuations; political, economic and environmental risks; the need for performance by buyers and suppliers of products and services; the Company’s dependency on performance by its licensee of Klean-Prep™ and its licensee of its Biochip

technology; and the risk of unanticipated expenses or unanticipated reductions in revenue, or both, any of which could cause the Company to reduce, delay or divest one or more of its research, development or marketing programs, or otherwise cause future results to differ materially from current or anticipated results.

Financial Instruments

The carrying amounts of certain of the Company's financial instruments, including cash and cash equivalents, short-term investments, accounts receivable and accounts payable and accrued liabilities, approximate fair values due to their short-term maturities. Based on borrowing rates currently available to the Company for loans of comparable maturity and credit quality, the carrying value of long-term debt approximates its fair value.

Financial instruments potentially exposing the Company to concentrations of credit risk consist of accounts receivable, which are limited to a large international pharmaceutical company and Canadian pharmaceutical wholesalers and pharmacies. The Company adopts credit policies and standards to monitor the evolving health care industry. Management is of the opinion that any risk of credit loss is significantly reduced due to the financial strength of the Company's major customers. The Company performs ongoing credit evaluations of its customers' financial condition and requires letters of credit or other guarantees whenever deemed necessary.

Forward-looking Statements

Readers are cautioned that actual results may differ materially from the results projected in any "forward-looking" statements included in the foregoing report, which involve a number of risks or uncertainties. Forward-looking statements are statements that are not historical facts, and include statements regarding the Company's planned research and development programs, anticipated future losses, revenues and market shares, planned clinical trials, expected future expenditures, the Company's intention to raise new financing, sufficiency of working capital for continued operations, and other statements regarding anticipated future events and the Company's anticipated future performance. Forward-looking statements generally can be identified by the words "expects", "vision", "designed to be", "intends", "continues", "future", "planned", "plans", and similar expressions or variations thereon, or that events or conditions "will", "may", "could", or "should" occur, or comparable terminology referring to future events or results.

The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of numerous factors, including those listed above under "Risks and Uncertainties", any of which could cause actual results to vary materially from current results or the Company's anticipated future results. See the Company's reports filed with the Canadian Securities Regulatory Authorities from time to time for cautionary statements identifying important factors with respect to such forward-looking statements, including certain risks and uncertainties that could cause actual results to differ materially from results referred to in forward-looking statements. The Company assumes no responsibility to update the information contained herein.

Dated October 26, 2006

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The accompanying consolidated financial statements of Helix BioPharma Corp. and other financial information contained in this annual report are the responsibility of management. The consolidated financial statements have been prepared in conformity with Canadian generally accepted accounting principles, using management's best estimates and judgments, where appropriate. In the opinion of management, these consolidated financial statements reflect fairly the financial position and the results of operations and cash flows of the Company within reasonable limits of materiality. The financial information contained elsewhere in this annual report has been reviewed to ensure consistency with that in the consolidated financial statements.

To assist management in discharging these responsibilities, the Company maintains an effective system of procedures and internal control which is designed to provide reasonable assurance that its assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and that the financial records form a reliable base for the preparation of accurate and reliable financial information.

The Board of Directors ensures that management fulfils its responsibilities for the financial reporting and internal control. The Board of Directors exercises this responsibility through its independent Audit Committee comprising a majority of unrelated and outside directors. The Audit Committee meets periodically with management and annually with the external auditors to review audit recommendations and any matters that the auditors believe should be brought to the attention of the Board of Directors. The Audit Committee also reviews the consolidated financial statements and recommends to the Board of Directors that the statements be approved for issuance to the shareholders.

The consolidated financial statements have been audited by KPMG LLP, Chartered Accountants, which has full and unrestricted access to the Audit Committee. KPMG's report on the consolidated financial statements is presented herein.



Donald H. Segal
Chief Executive Officer



Photios (Frank) Michalargias
Chief Financial Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Helix BioPharma Corp. as at July 31, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for each of the years in the two-year period ended July 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2006 and 2005 and the results of its operations and its cash flows for each of the years in the two-year period ended July 31, 2006 in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Toronto, Canada
October 18, 2006

Consolidated Balance Sheets

July 31, 2006 and 2005 (In thousands of Canadian dollars)

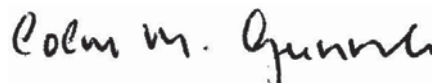
	2006	2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,392	\$ 4,130
Short-term investments	6,640	2,470
Accounts receivable	878	461
Inventory	418	474
Prepaid and other expenses	160	283
	12,488	7,818
Investment (note 3)	1	1
Capital assets (note 4)	1,363	1,420
Intangible assets (note 5)	1,617	2,211
	\$ 15,469	\$ 11,450
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,572	\$ 1,060
Deferred revenue	–	50
Current portion of long-term debt (note 6)	16	20
	1,588	1,130
Long-term debt (note 6)	–	18
Shareholders' equity (note 7):		
Share capital	51,944	43,570
Share purchase warrants	636	193
Contributed surplus	1,753	554
Stock options	3,602	3,100
Deficit	(44,054)	(37,115)
	13,881	10,302
Commitments (note 8)		
Contingent liability (note 9)		
Subsequent event (note 15)		
	\$ 15,469	\$ 11,450

See accompanying notes to consolidated financial statements.

On behalf of the Board:



DONALD H. SEGAL, DIRECTOR



CONOR GUNNE, DIRECTOR

Consolidated Statements of Operations and Deficit

Years ended July 31, 2006 and 2005 (In thousands of Canadian dollars, except per share amounts)

	2006	2005
Revenue:		
Product revenue	\$ 3,012	\$ 2,456
License fees and royalties	773	1,234
Research and development contracts	180	42
	3,965	3,732
Expenses:		
Cost of sales	1,341	1,190
Research and development	3,224	2,853
Operating, general and administration	3,866	3,710
Amortization of intangible assets	594	1,244
Amortization of capital assets	315	330
Stock-based compensation	1,710	1,470
Interest income	(270)	(137)
Foreign exchange loss	16	78
Write-down of intangible assets	–	428
	10,796	11,166
Loss before income taxes	(6,831)	(7,434)
Income taxes (note 10)	108	191
Loss for the year	(6,939)	(7,625)
Deficit, beginning of year	(37,115)	(29,490)
Deficit, end of year	\$ (44,054)	\$ (37,115)
Loss per share (note 11):		
Basic	\$ (0.22)	\$ (0.28)
Diluted	(0.22)	(0.28)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended July 31, 2006 and 2005 (In thousands of Canadian dollars)

	2006	2005
Cash provided by (used in):		
Operating activities:		
Loss for the year	\$ (6,939)	\$ (7,625)
Items not involving cash:		
Amortization of capital assets	315	330
Amortization of intangible assets	594	1,244
Stock-based compensation	1,710	1,470
Write-down of intangible assets	–	428
Foreign exchange loss (gain)	16	78
Change in non-cash working capital:		
Accounts receivable	(417)	(123)
Inventory	56	(295)
Prepaid and other expenses	123	(102)
Accounts payable and accrued liabilities	512	(169)
Deferred revenue	(50)	50
	(4,080)	(4,714)
Financing activities:		
Long-term debt repayments	(22)	(24)
Proceeds from the issue of warrants and common shares, net of issue costs	8,796	5,238
Proceeds from the exercise of options	12	–
	8,786	5,214
Investing activities:		
Redemption (purchase) of short-term investments, net	(4,170)	516
Purchase of capital assets	(258)	(405)
	(4,428)	111
Effect of exchange rate changes on cash and cash equivalents	(16)	(78)
Increase in cash and cash equivalents	262	533
Cash and cash equivalents, beginning of year	4,130	3,597
Cash and cash equivalents, end of year	\$ 4,392	\$ 4,130
Supplemental cash flow information:		
Interest received	\$ 198	\$ 186
Interest paid	10	3
Income taxes paid	224	284

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended July 31, 2006 and 2005 in Canadian dollars

(Tabular dollar amounts in thousands of Canadian dollars, except per share amounts)

1. Operations:

The Company's principal business activities are focused on biopharmaceuticals, primarily in the areas of cancer prevention and treatment. In addition, the Company earns revenue from its drug distribution business in Canada and international licensing activities. The Company has funded its research and development activities through the issuance of common shares and warrants and limited commercial activities.

As the Company has several projects in the research and development stage, it expects to incur additional losses and require additional financial resources. The continuation of the Company's research and development activities and the commercialization of its products is dependent upon the Company's ability to successfully complete its research programs, protect its intellectual property and finance its cash requirements on an ongoing basis. It is not possible to predict the outcome of future research and development activities or the financing thereof.

2. Significant accounting policies:

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles.

(a) Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The Company conducts drug discovery through Sensium Technologies Inc. ("Sensium"); drug delivery research and testing activities through PharmaDerm Laboratories Ltd. ("PharmaDerm"); drug development through Helix Product Development Inc.; distributes pharmaceuticals in Canada through Rivex Pharma Inc. ("Rivex"), and licenses its technologies internationally through its Irish subsidiary, Intercon Pharma Limited.

(b) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates. Significant areas requiring the use of estimates relate to the assessment of impairment in the value of long-term investments, determination of useful lives and assessment of impairment of long-lived assets such as capital assets, acquired technology under development and patents, determination of fair value of stock options granted for estimating stock-based compensation expense, the allocation of proceeds to share purchase warrants and the determination of valuation allowance of future tax assets.

In determining these estimates, the Company relies on assumptions regarding applicable industry performance and prospects, as well as general business and economic conditions that prevail and are expected to prevail. These assumptions are limited by the availability of reliable comparable data and the uncertainty of predictions concerning future events.

(c) Cash and cash equivalents:

Cash and cash equivalents include unrestricted cash and treasury bills having maturities not exceeding 90 days from their respective acquisition dates.

(d) Short-term investments:

Short-term investments include highly liquid financial instruments issued by financial institutions with an original maturity of 90 days or more and are carried at cost and accrued interest receivable, which approximates their fair value.

(e) Inventory:

Inventory is valued at the lower of cost, determined on a first-in first-out basis, and net realizable value.

Notes to Consolidated Financial Statements

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(f) Investments:

Investments, other than those accounted for using the equity method, are recorded at cost. The Company periodically reviews the carrying value of its investments. Any impairment in their carrying value, which is other than temporary, is charged to operations in the period in which the impairment is assessed.

(g) Capital assets:

Capital assets are recorded at cost less accumulated amortization. Equipment under capital leases is initially recorded at the present value of minimum lease payments at the inception of the lease. Amortization is provided using the following methods and annual rates:

Asset	Basis	Rate
Research equipment	Declining balance	20% - 30%
Computer equipment	Declining balance	20% - 30%
Furniture and fixtures	Declining balance	20% - 30%

(h) Research and development:

Internally generated research costs, including the costs of developing intellectual property and registering patents, are expensed as incurred. Internally generated development costs are expensed as incurred unless such costs meet the criteria for deferral and amortization under Canadian generally accepted accounting principles. To date, the Company has not deferred any internally generated development costs.

(i) Revenue recognition:

Sales of pharmaceuticals are recognized at the time the product is shipped, when title of the goods passes to the buyer. Sales are recorded net of estimated discounts, product returns and other charge-backs. Revenue for research and development contracts consists of up-front fees and milestone payments. Non-refundable up-front fees are recognized over the term of the contract. Milestone payments are recognized on the achievement of specific milestones in accordance with the contract. Royalty revenue is recognized when product is shipped by the licensee to third parties.

License fees are comprised of initial fees and contingent payments dependent upon future actions by the customer. The non-refundable license fee is recognized when the Company has no further involvement or obligation to perform under the arrangement, the fee is fixed and determinable and collection of the amount is deemed probable. Contingent payments are recognized when the contingency is eliminated and the customer is obligated to make the performance payment.

(j) Foreign currency translation:

Foreign operations and foreign currency-denominated items are translated into Canadian dollars. Monetary assets and liabilities of the Company's integrated foreign subsidiary are translated into Canadian dollars at the rates of exchange in effect at the balance sheet dates. Non-monetary items are translated at historical exchange rates. Revenue and expenses are translated at the exchange rates prevailing at their respective transaction dates. Exchange gains and losses arising on translation are included in operating results.

(k) Income taxes:

The Company accounts for income taxes using the asset and liability method. Future tax assets and liabilities are recognized for the future taxes attributable to the temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax carrying values. Future tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance against future tax assets is recognized when it is more

Notes to Consolidated Financial Statements

Years ended July 31, 2006 and 2005 in Canadian dollars

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likely than not that the Company will not generate sufficient income for tax purposes to utilize tax losses in the carry-forward period and other available tax deductions.

(l) Loss per share:

Basic loss per share is calculated by dividing the earnings available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated using the treasury stock method, which assumes that all stock options and share purchase warrants with exercise prices below the market prices are exercised with the proceeds used to purchase common shares of the Company at the average market price during the year.

(m) Intangible assets:

Intangible assets consist of acquired technology under development and patents. Intangible assets are amortized at the shorter of their remaining legal or contractual life and their estimated useful life on a straight-line basis as follows:

Acquired technology under development	3 years
Patents	15 - 20 years

The amortization method and estimate of the useful life of intangible assets are reviewed annually.

Acquired technology under development and patents do not necessarily reflect the present or future value of the underlying science or technology. The amount recoverable is dependent upon the continuing advancement of the research through various phases of clinical trials and ultimately to commercialization or on the licensing of the research to third parties, for valuable consideration. It is not possible to predict the outcome of research and development programs or their potential to be licensed to third parties.

(n) Stock-based compensation:

The Company accounts for stock-based compensation and other stock-based payments made in exchange for goods and services provided by employees and non-employees in accordance with the recommendations of The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments" ("Section 3870"). Section 3870 established standards for recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services provided by employees and non-employees. The standard requires that a fair value-based method of accounting be applied to all stock-based payments to employees and non-employees and to employee awards that are direct awards of stock, which call for settlement in cash or other assets or are appreciation rights that call for settlement by the issuance of equity instruments. The fair value of stock options is measured at the grant date using the Black-Scholes option pricing model and the compensation cost is amortized over the options' vesting period for employee awards and the service period for non-employee awards. Forfeitures are accounted for as they occur.

(o) Impairment of long-lived assets:

The Company's long-lived assets include capital assets and intangible assets with finite lives.

The Company considers a two-step process to determine whether there is impairment of long-lived assets held for use. The first step determines when impairment is recognized and the second step measures the amount of the impairment. An impairment loss is recognized when the carrying amount on a long-lived asset exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. An impairment loss is measured as the amount by which the long-lived asset's carrying amount exceeds its fair value. To test for and measure impairment, long-lived assets are grouped at the lowest level for which identifiable cash flows are largely independent. Intangible asset write-downs in fiscal 2006 total nil (2005 - \$428,000).

Notes to Consolidated Financial Statements

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(p) Changes in accounting policies:

(i) Variable interest entities:

Effective August 1, 2005, the Company adopted the recommendations of CICA Handbook Accounting Guideline 15, "Consolidation of Variable Interest Entities" ("AcG-15"). Variable interest entities ("VIEs") refer to those entities that are subject to control on a basis other than ownership of voting interests. AcG-15 provides guidance for identifying VIEs and criteria for determining which entity, if any, should consolidate them. The adoption of AcG-15 did not have any effect on the financial position, results of operations or cash flows in the current period or the prior period presented.

(ii) Financial instruments – disclosure and presentation:

Effective August 1, 2005, the Company adopted the amended recommendations of CICA Handbook Section 3860, "Financial Instruments – Disclosure and Presentation ("Section 3860"). Section 3860 requires that certain obligations that may be settled at the issuer's option in cash or cash equivalent value by a variable number of the issuer's own equity instruments be presented as a liability. The Company has determined that there is no impact on the financial statements resulting from the adoption of the amendments to Section 3860 either in the current period or the prior period presented.

(iii) Non-monetary transactions:

In June 2005, the CICA released a new Handbook Section 3831, "Non-monetary Transactions" ("Section 3831"), effective for all non-monetary transactions initiated in periods beginning on or after January 1, 2006. The standard requires all non-monetary transactions to be measured at fair values unless they meet one of the four very specific criteria. Commercial substance replaces culmination of the earnings process as the test for value measurement. A transaction has commercial substance if it causes an identifiable and measurable change in the economic circumstances of the entity. Commercial substance is a function of the cash flows expected by the reporting entity. The Company has not entered into any non-monetary transactions and, as such, Section 3831 is not applicable.

(q) Recent Canadian accounting pronouncements not yet adopted:

(i) Financial instruments – recognition and measurement:

In January 2005, the CICA released new Handbook Section 3855, "Financial Instruments – Recognition and Measurement" ("Section 3855"), effective for annual and interim periods beginning on or after October 1, 2006. This new section prescribes when a financial instrument is to be recognized on the balance sheet and at what amount, sometimes using fair value and other times using cost-based measures. It also specifies how financial instrument gains and losses are to be presented and defines financial instruments to include accounts receivable and payable, loans, investments in debt and equity securities, and derivative contracts. The Company has not yet determined the impact of adopting Section 3855 on its consolidated results of operations or financial position.

(ii) Comprehensive income and equity:

In January 2005, the CICA released new Handbook Section 1530, "Comprehensive Income", and Section 3251, "Equity", effective for annual and interim periods beginning on or after October 1, 2006. Section 1530 establishes standards for reporting comprehensive income. The section does not address issues of recognition or measurement for comprehensive income and its components. Section 3251 establishes standards for the presentation of equity and changes in equity during the reporting period. The requirements in this section are in addition to Section 1530. The Company has not yet determined the impact of adopting Sections 1530 and 3251 on its consolidated results of operations or financial position.

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(iii) Hedges:

In April 2005, the CICA released new Handbook Section 3865, "Hedges", effective for fiscal periods beginning on or after October 1, 2006. Section 3865 establishes standards for when and how hedge accounting may be applied. Hedge accounting is optional. The Company has not yet determined the impact of adopting Section 3865 on its consolidated results of operations or financial position.

The Company will adopt all of these new standards effective August 1, 2007.

3. Investment:

Orchid Cellmark Inc. ("Orchid"):

At July 31, 2006, the Company owns 29,678 common shares in Orchid (2005 – 23,338 common shares). During fiscal 2001, the Company wrote the carrying value of this investment down to \$1 because the Company believed the carrying value of the investment to be impaired. Orchid's common shares trade on the NASDAQ, under the ticker symbol ORCH. The closing trading price of Orchid's common shares was US\$2.08 per share at July 31, 2006 (2005 - US\$8.56 per share).

4. Capital assets:

	2006			2005		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Research equipment	\$ 2,624	\$ 1,510	\$ 1,114	\$ 2,412	\$ 1,276	\$ 1,136
Computer equipment	580	387	193	546	318	228
Furniture and fixtures	130	74	56	118	62	56
	\$ 3,334	\$ 1,971	\$ 1,363	\$ 3,076	\$ 1,656	\$ 1,420

5. Intangible assets:

	2006			2005		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Acquired technology under development	\$ 3,141	\$ 3,141	\$ –	\$ 3,141	\$ 2,705	\$ 436
Patents	2,243	626	1,617	2,243	468	1,775
	\$ 5,384	\$ 3,767	\$ 1,617	\$ 5,384	\$ 3,173	\$ 2,211

In fiscal 2002, the Company acquired intangible assets, representing technology under development and patents totalling \$3,141,000 and \$2,021,000 (net of write-down amount), respectively. The acquired intangible assets resulted from the Company's acquisition of the Sensium minority interest. In addition, the Company owns \$222,000 in patents related to the fiscal 2000 acquisition of PharmaDerm.

6. Long-term debt:

	2006	2005
Bank loans, bearing interest at prime plus 2.75%, due on various dates by March 2007 and secured by specified equipment	\$ 16	\$ 38
Less current portion	16	20
	\$ –	\$ 18

Interest expense incurred on long-term debt in 2006 amounted to \$3,000 (2005 - \$4,000).

Notes to Consolidated Financial Statements

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7. Share capital:

(a) Preferred shares:

- (i) Authorized 10,000,000 preferred shares.
- (ii) Nil preferred shares issued and outstanding.

(b) Common shares:

- (i) Authorized unlimited common shares without par value.
- (ii) Issued and outstanding:

	Shares	Amount
Balance at July 31, 2004	24,768,726	\$ 38,525
Issued for cash – private placement (b)(iii)	2,415,000	5,090
Share issue costs	–	(45)
Balance at July 31, 2005	27,183,726	43,570
Common shares issued – private placement (b)(iii)	5,495,609	9,080
Stock options exercised	6,000	21
Share issue costs	–	(727)
Balance at July 31, 2006	32,685,335	\$ 51,944

- (iii) On November 7, 2005, the Company raised gross proceeds of approximately \$5,523,000 through a private placement of 3,156,428 units at \$1.75 per unit. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant can be exercised on or before March 31, 2008 for one common share, at a share price of \$2.45.

On October 4, 2005, the Company raised gross proceeds of \$4,000,000 through a private placement of 2,339,181 units at \$1.71 per unit. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant can be exercised on or before March 31, 2008 for one common share, at a share price of \$2.39.

In September 2004, the Company completed two separate financings, resulting in the issuance of 2,415,000 common shares and 2,415,000 common share purchase warrants, for total gross proceeds of \$5,283,000. The first private placement financing resulted in the Company issuing a total of 2,190,000 common shares and 2,190,000 common share purchase warrants for gross proceeds of \$4,664,000. Each common share purchase warrant entitles the holder to purchase one common share at a price of \$3.00 until March 1, 2007. The second private placement financing resulted in the Company issuing an additional 225,000 common shares and 225,000 common share purchase warrants for gross proceeds of \$619,000. Each common share purchase warrant, in the second financing, entitled the holder to purchase one common share at a price of \$4.50 until September 22, 2006. The share purchase warrants associated with the second financing expired unexercised, on September 22, 2006.

Of the \$9,523,000 and \$5,283,000 in gross proceeds received in fiscal 2006 and 2005, \$443,000 and \$193,000, respectively, were allocated to the share purchase warrants, based on their fair value.

Notes to Consolidated Financial Statements

Years ended July 31, 2006 and 2005 in Canadian dollars

(Tabular dollar amounts in thousands of Canadian dollars, except per share amounts)

(c) Share purchase warrants:

	2006		2005	
	Warrants	Amount	Warrants	Amount
Outstanding, beginning of year	2,415,000	\$ 193	–	\$ –
Share purchase warrants issued - private placement (b)(iii)	5,495,609	443	2,415,000	193
Outstanding, end of year	7,910,609	\$ 636	2,415,000	\$ 193

(d) Stock options:

- (i) The Company maintains a stock option plan reserving up to 3,500,000 common shares for granting to directors, officers and employees of the Company or any person or company engaged to provide ongoing management or consulting services. Options are granted at the fair market value of the Company's stock at the grant date, vesting at the discretion of the Board, and may have terms of up to 10 years. As a part of the acquisition of the Sensium minority interest and with regulatory approval, 290,000 stock options were issued to consultants outside of the Company stock option plan. These options issued to consultants outside the Company stock option plan expired unexercised during the current fiscal year ended July, 31, 2006.

(ii) Issued and outstanding:

Exercise price	Options outstanding		Options exercisable	
	Number	Weighted average remaining contractual life (years)	Number	Weighted average remaining contractual life (years)
\$2.00	1,140,500	3.92	1,076,611	3.92
\$3.00	911,000	5.00	911,000	5.00
\$5.00	1,216,000	1.92	1,216,000	1.92
\$5.50	15,000	2.00	15,000	2.00
	3,282,500		3,218,611	

	2006		2005	
	Number	Weighted average exercise price per share	Number	Weighted average exercise price per share
Outstanding, beginning of year	3,380,500	\$ 4.00	3,607,500	\$ 5.00
Granted	931,000	2.98	1,151,500	2.00
Exercised	(6,000)	2.00	–	–
Forfeited/expired	(1,023,000)	5.00	(1,378,500)	4.95
Outstanding, end of year	3,282,500	\$ 3.40	3,380,500	\$ 4.00
Exercisable, end of year	3,218,611	\$ 3.43	3,280,500	\$ 4.06

Notes to Consolidated Financial Statements

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(iii) Stock-based compensation:

For the year ended July 31, 2006, the Company granted stock options totalling 931,000 (2005 - 1,151,500), with a fair value of \$1,658,000 (2005 - \$1,647,000) and 36,111 (2005 - nil) stock options vested with a fair value of \$52,000 (2005 - nil). The result is a net stock-based compensation expense of \$1,710,000 (2005 - \$1,470,000).

The unvested options at July 31, 2006 will be expensed equally over the remaining two-year period as the options vest. The Black-Scholes option pricing model was used to estimate the fair value of the options at the grant date based on the following assumptions:

	2006	2005
Volatility	92%	91%
Risk-free interest rate	4.16%	4.50%
Expected life	5 years	5 years
Dividend yield	—	—

8. Commitments:

(a) Research and licensing commitments:

- (i) Pursuant to a 20-year license agreement, expiring in 2017 (subject to earlier termination in certain circumstances), to commercialize its proprietary Molecular Sensing Technology, the Company is committed to make certain royalty payments upon the commercial launch of the first product or on the net sales revenue of the products that employ or utilize the technology under the terms of the agreement.
- (ii) Pursuant to a 20-year license agreement, expiring in 2021 (subject to earlier termination in certain circumstances), to commercialize its proprietary Heterodimer Protein Technology, the Company is committed to make certain royalty payments upon the commercial launch of the first product or on the net sales revenue of the products that employ or utilize the technology under the terms of the agreement.
- (iii) The Company signed various agreements with the National Research Council of Canada ("NRC"), whereby NRC will provide research services related to the Company's L-DOS47 program, through to September 2007. The fee for services total \$500,000 and are payable over the duration of the agreement.
- (iv) The Company signed various agreements with a Contract Research Organization ("CRO"), whereby the CRO will provide research services related to the Company's L-DOS47 program, through to July 2007. The fee for services total \$476,000 and are payable over the duration of the agreement.
- (v) The Company signed agreements with two CROs, whereby the CROs provide services associated with the overseeing and management of a Phase II clinical study and trial in Europe of its Topical Interferon Alpha-2b in patients with low-grade squamous intraepithelial lesions and ano-genital warts, who are positive with the human papilloma virus. The fee for services as at July 31, 2006 are €386,000 (CDN\$557,000) and are due upon the achievement of specific milestones.

As at July 31, 2006, the Company has accrued \$107,000 (2005 - \$65,000) in research and licensing commitments.

(b) Royalty commitments:

- (i) Pursuant to a Royalty Agreement dated March 27, 1997 with University of Saskatchewan Technologies Inc. ("UST"), the Company is required to pay UST a royalty of 2% of the net sales revenue generated from certain products containing prostaglandin E₁, and in the case of sub-licenses of such products, 15% of the non-royalty considerations (up front payments) received from the sub-licensee.

Notes to Consolidated Financial Statements

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- (ii) Pursuant to an Amended Royalty Agreement with a shareholder effective November 1, 1999, the Company is required to pay royalties of 2% of the Company's net sales revenue received from the marketing, manufacture, distribution or sale of certain products, or in the case of sub-license revenue, 2% of license fees or other revenue received by the Company related to the marketing, manufacture, distribution or sale of certain products, which revenue is not allocated by the Company to the further development of the product.
- (iii) The Company has completed its research agreement with the NRC for research and development pertaining to the Company's Heterodimer and cancer technologies. The Company is committed to a 1% royalty on sales revenue from all licensed products and services to the NRC.
- (iv) A Royalty Sharing Agreement dated September 24, 1998 with the Vaccine and Infectious Disease Organization ("VIDO") applies to those patents and other intellectual properties, which the parties agree, may be made subject to the agreement from time to time. VIDO will have the right to exploit such property in the animal health care industry, and the Company will have the right to exploit such property in the human health care industry, with each party having the right to receive 1/3 of the license fees, royalties or other revenue generated from the area exploited by the other. In the case of direct product sales made by the Company or VIDO, the other party will be entitled to a royalty on the net sales revenue received by the selling party, at a royalty rate to be negotiated.
- (v) Pursuant to a Royalty Agreement dated April 28, 2005 with the NRC, the Company is required to pay a royalty of 3% of net sales, with a minimum royalty of \$10,000 per annum generated from the use of a certain antibody to target cancerous tissues of the lung. In addition to the royalty payments, the Company is also required to make certain milestone payments: \$25,000 upon successful completion of Phase I clinical trials; \$50,000 upon successful completion of Phase IIb clinical trials; \$125,000 upon successful completion of Phase III clinical trials; and \$200,000 upon receipt of market approval by regulatory authority.

As at July 31, 2006, the Company has no outstanding financial obligations related to royalty commitments.

(c) Operating lease commitments:

The Company has entered into various operating lease agreements with remaining terms of up to January 2009 for office and warehouse and research premises. As at July 31, 2006, the minimum lease payments due under the lease and within one year are approximately \$249,000 (2005 - \$199,000).

(d) Other commitments:

The Company has purchase commitments with one of its suppliers over the next three years totalling a minimum US\$1,980,000 (CDN\$2,241,000) (2005 - US\$2,268,000; CDN\$2,776,000).

9. Contingent liability:

The Company indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Company to the extent permitted by law.

Given the nature of this indemnification, the Company is unable to reasonably estimate its maximum potential liability as this indemnification provision does not provide for a maximum potential amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. Consequently, no amounts have been accrued in these consolidated financial statements relating to this indemnification.

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10. Income taxes:

The tax effects of temporary differences of the Company and its subsidiaries that give rise to significant portions of the future tax assets and future tax liabilities are presented below:

	2006	2005
Future tax assets:		
Non-capital losses carried forward	\$ 7,040	\$ 6,065
Capital losses carried forward	27	27
Scientific Research & Experimental Development expenditure pool	3680	3,301
Excess of tax basis over book basis of Orchid investment	201	201
Excess of tax basis over book basis of capital assets	319	294
Deductible share issue costs	221	14
Other	-	13
	11,488	9,915
Valuation allowance	(10,904)	(9,117)
Total future tax assets	584	798
Future tax liabilities:		
Excess of book basis over tax basis of intangible assets	(584)	(798)
Total future tax liabilities	(584)	(798)
Net future tax liabilities	\$ -	\$ -

Current income tax expense of \$108,000 (2005 - \$191,000) is attributable to the operations of the Company's Irish subsidiary.

Under the Income Tax Act (Canada), certain expenditures are classified as SR & ED expenditures and are grouped into a pool for tax purposes, which is 100% deductible in the year incurred. This expenditure pool can also be carried forward indefinitely and deducted in full in any subsequent year. The SR & ED expenditure pool at July 31, 2006 is approximately \$10,790,000 (2005 - \$9,722,000).

The Company has also earned investment tax credits on SR & ED expenditures at July 31, 2006 of approximately \$2,609,000 (2005 - \$2,380,000), which can offset Canadian income taxes otherwise payable in future years up to 2016.

As at July 31, 2006, the Company has Canadian tax losses carried forward which approximate \$20,241,000 (2005 - \$17,585,000) and are available until 2026 as follows:

2007	\$ 1,528
2008	3,159
2009	2,340
2010	1,985
2014	3,457
2015	3,891
2026	3,881
	\$ 20,241

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11. Loss per share:

Loss per share is calculated based upon the weighted average number of common shares outstanding during the year as follows:

	2006	2005
Weighted average number of common shares outstanding	31,409,495	26,959,055

The share purchase warrants and stock options outstanding for each of the periods reported were not included in the computation of diluted loss per share because the effect would be anti-dilutive.

12. Related party transactions:

The Company had the following related party transactions:

	2006	2005
Research and development expense paid to a director of a subsidiary	\$ 30	\$ 30
Professional, legal and consulting fees to directors, partnerships and/or companies in which directors have a substantial interest	193	255
Research and development revenue contract with Apotex Inc.	180	42

These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

In February 2005, the Company, through its wholly owned subsidiary, PharmaDerm, entered into an agreement with Apotex Inc. ("Apotex"), to identify and characterize a lead formulation for Apotex's topical therapeutic product line. Apotex is considered a related party, as a director of the Company is also the President and Chief Operating Officer of Apotex. The Company received \$180,000 (2005 - \$92,000) from Apotex during the year in respect to contract services for research and development work, of which \$180,000 (2005 - \$42,000) was recognized as revenue.

During the fiscal year ended 2006, the Company paid \$193,000 (2005 - \$231,000) to Cawkell Brodie Glaister LLP, Business Lawyers, legal counsel to the Company, for legal services rendered and nil (2005 - \$24,000) to The PGL Partnership for accounting services rendered. Kenneth A. Cawkell, a Director of the Company, is a partner of Cawkell Brodie Glaister LLP, Business Lawyers. Effective March 31, 2006, Connor Gunne, a Director of the Company, was no longer a partner of The PGL Partnership.

13. Financial instruments:

The carrying amounts of certain of the Company's financial instruments, including cash and cash equivalents, short-term investments, accounts receivable and accounts payable and accrued liabilities, approximate fair values due to their short-term maturities. Based on borrowing rates currently available to the Company for loans of comparable maturity and credit quality, the carrying value of long-term debt approximates its fair value.

Financial instruments potentially exposing the Company to concentrations of credit risk consist of accounts receivable, which are limited to a large international pharmaceutical company and Canadian pharmaceutical wholesalers and pharmacies. The Company adopts credit policies and standards to monitor the evolving health care industry. Management is of the opinion that any risk of credit loss is significantly reduced due to the financial strength of the Company's major customers. The Company performs ongoing credit evaluations of its customers' financial condition and requires letters of credit or other guarantees whenever deemed necessary.

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Years ended July 31, 2006 and 2005 in Canadian dollars

(Tabular dollar amounts in thousands of Canadian dollars, except per share amounts)

14. Segmented information:

Management has determined that the Company has one operating segment, being biopharmaceuticals.

Revenue originates in Canada with the exception of \$571,000 of royalty revenue for the year ended July 31, 2006 (2005 - \$911,000) earned by the Irish subsidiary. One customer represents 15% of total consolidated revenue as at July 31, 2006 (2005 - 24%) and 23% of total consolidated accounts receivable as at July 31, 2006 (2005 - 40%).

All of the Company's capital assets are located in Canada.

15. Subsequent event:

On October 11, 2006, the Company announced the completion of a private placement, issuing 3,650,000 units at \$1.93 per unit, for gross proceeds of \$7,044,500. Each unit consists of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one common share at a price of \$2.70 until March 31, 2008. The issuance of common shares and share purchase warrants will be accounted for as a capital transaction in the Company's first quarter of fiscal 2007. The units are non-transferable for not less than four months following the date of issuance of the units.

Notes:

Directors and Officers

Jerome F. McElroy, M.A.Sc., P.Eng.

Donald H. Segal, M.Sc., Ph.D.

Jack Kay

Kenneth A. Cawkell, LL.B.

Conor M. Gunne, B.C.L., B.L., F.C.A.

Richard Rossman, MD, FRCP(C)

Photios (Frank) Michalarigias, CA

Heman Chao, Ph.D.

John Docherty, M.Sc.

Director and Chairman

Director, President and Chief Executive Officer

Director

Director and Corporate Secretary

Director and Chair of the Audit Committee

Director and Chair of the Compensation Committee

Chief Financial Officer

Vice President, Research

Vice President, Corporate Development

Scientific Advisors

Robert Hodges, Ph.D., FRSC

Professor, Department of Biochemistry and Molecular Genetics; Director, Program in Biomolecular Structure
John Stewart Endowed Chair in Peptide Chemistry,
University of Colorado Health Sciences Center

Marianna Foldvari, D. Pharm. Sci., Ph.D.

Professor, School of Pharmacy, University of Waterloo
and visiting Professor, Department of Chemical Engineering, Massachusetts Institute of Technology
(formerly Professor and Associate Dean of Research and Graduate Studies, College of Pharmacy and Nutrition, University of Saskatchewan)

Randall Irvin, Ph.D.

Professor, Department of Medical Microbiology and Immunology, University of Alberta

Paul Walfish, C.M., MD, FCRP(C), FACP

Professor, Faculty of Medicine, University of Toronto

Peter Dehlinger, Ph.D., J.D.

Perkins Coie LLP

Medical Advisors

Richard Rossman, MD, FRCP(C)

Associate Clinical Professor, Department of Medicine,
McMaster University

Trevor Seaton, MD, FRCP(C)

Associate Clinical Professor, Department of Medicine,
McMaster University

A.D. DePetrillo, MD, FRCS(C)

Professor, Obstetrics, Gynecology and Surgery,
University of Toronto;
Vice President Professional Affairs, Comprehensive Care International; President and CEO, CAREpath Inc.

Neil Shear, MD, FRCP(C), FACP

Professor and Chief of Dermatology,
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