MANAGEMENT’S DISCUSSION AND ANALYSIS

The following Management’s Discussion and Analysis (“MD&A”) of the financial condition and results of operations for the years ended July 31, 2007, 2006 and 2005 was prepared as at October 25, 2007 and should be read in conjunction with the Audited Consolidated Financial Statements of Helix BioPharma Corp (the “Company” or “Helix”) for the years ended July 31, 2007, 2006 and 2005 and the accompanying notes thereto, 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 and information (see “Forward Looking Statements and Information” below) 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 and Information” below, as well as in the Company’s Annual Information Form. Helix undertakes no obligation to revise forward-looking statements in light of future events.

OVERVIEW

Helix is a biopharmaceutical company developing novel products for the treatment of cancer and precancerous conditions. The Company generates revenues from three sources: (i) product sales, (ii) license fees and royalties, and (iii) contract research and development, as well as interest earned from short-term investments. 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 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. Helix is principally focused on pursuing the clinical development of two emerging drug products with distinct anti-cancer applications: Topical Interferon Alpha-2b and L-DOS47.

Topical Interferon Alpha-2b

Helix is developing Topical Interferon Alpha-2b for the treatment of early stage cervical dysplasia and ano-genital warts (“AGW”) caused by the Human Papilloma Virus (“HPV”). HPV is one of the most common sexually transmitted infections, causing AGW as well as being linked to a variety of cancers.

Helix’s Topical Interferon Alpha-2b formulation incorporates the Company’s patented Biphasix™ technology. The Biphasix™ technology facilitates the delivery of macromolecules such as interferon alpha-2b across the surface of skin/mucosal tissues. Topical Interferon Alpha-2b is designed to deliver interferon alpha-2b therapy to the basal epidermal layer, combating HPV infections where they would otherwise cause abnormal cellular proliferation.

Human leukocyte-derived Interferon alpha-2b is a well established, recombinantly produced drug therapy with potent antiviral effects that is available today in injectable preparations only. Helix’s Topical Interferon Alpha-2b is intended to offer a superior cream dosage form of interferon alpha-2b specially designed for the treatment of dermatological disease states.

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 or experimentally tested by others for additional widespread dermatological disease states including anal dysplasia, Kaposi’s sarcoma, actinic keratosis, 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...
In fiscal 2007, Helix achieved positive results from its German Phase II clinical study of Topical Interferon Alpha-2b in women with potentially precancerous, HPV induced low-grade cervical lesions ("LSIL"). Nearly half (46.7%) of the women in the treated per-protocol population experienced resolution of their abnormal Pap smears, compared with only 15.8% of the per-protocol control subjects. Furthermore, the relative difference in the Pap-response rate improved substantially when only the more advanced PapIIID per-protocol women were analyzed. In this subset, none (0.0%) of the untreated control subjects experienced normalization of their Pap smear versus 42.9% of the treated patients.

Based on these positive findings, Helix plans to progress to large, randomized, placebo-controlled double-blind studies to evaluate the product in an expanded patient population. Helix believes that study protocol improvements may allow the clinical outcomes to be enhanced even further. Preparations are underway in anticipation of Investigational New Drug ("IND") and Clinical Trial Application ("CTA") filings in the U.S. and Europe respectively, in 2008. This includes plans to identify a new contract manufacturing organization to service the Topical Interferon Alpha-2b scale-up GMP production requirements for these upcoming trials. In addition, Helix plans to address U.S. and European regulators by way of "pre-IND" or "scientific advice meetings" in the early part of the 2008 calendar year, through which its path to IND/CTA filings will be established.

Helix believes that Topical Interferon Alpha-2b has strong potential to become a significant therapy for women with cervical LSIL. There is no pharmaceutical therapy available for the millions of women in the world today that present with cervical LSIL annually. Accordingly, Helix believes there is a clear, unmet medical and market need for its product candidate for this purpose.

While companies such as Merck and GlaxoSmithKline have developed vaccines that are designed to protect against infection from several specific subtypes of HPV, they are intended primarily to offer a means of hopefully preventing adolescent youths from becoming infected in the first place, rather than to treat patients once infection has occurred. In contrast to these vaccines, Topical Interferon Alpha-2b is expected to offer a broadly applicable and efficacious therapeutic option to those patients that present with lesions caused by contraction of virtually any of the 100+ HPV subtypes. Furthermore, Helix believes that each year, despite the emerging vaccination strategies, women worldwide will likely continue to develop potentially precancerous cervical lesions, for which a drug therapy solution is urgently needed.

In fiscal 2007, Helix also announced the commencement of patient enrollment in a Phase II clinical trial of Topical Interferon Alpha-2b in patients with AGW. The trial is currently being conducted at multiple centers in Sweden, under the direction of Dr. Pål Wölner-Hanssen, the coordinating investigator located at the University Hospital of Lund.

The Swedish trial, as planned, is a multi-center, double-blind, randomized placebo-controlled trial. This trial involves a team of investigators in multiple centers in Sweden with expected enrollment of 120 patients, comparing treatment to placebo over an examination span of four months per patient. The Company has contracted the services of a contract research organization to manage the trial in Sweden. This clinical trial continues to progress, though at a slower pace than originally anticipated, due to a lower patient enrollment rate. The Company is currently implementing a protocol amendment with the intention of restoring the recruitment rate and completing patient enrollment within the 2008 calendar year.

As part of Helix's ongoing policy focused around intellectual property protection, the Company in fiscal 2007 filed for an additional patent involving the Company’s Biphasix™ technology and interferon alpha-2b.

**DOS47 – A broad anti-cancer therapeutic candidate**

DOS47 was conceived to offer a novel approach to cancer therapy by leveraging a natural process in the body called the urea cycle, to produce an anti-cancer effect. DOS47 is based upon a naturally occurring enzyme called urease that essentially reverses the urea cycle by breaking down urea into metabolites that include ammonia and hydroxyl ions. By doing so at the site of cancerous tissues in the body, DOS47 is believed to modify the microenvironmental conditions of cancerous cells in a manner that leads to their death.
Among these theorized effects, DOS47 is believed to stimulate an increase in the pH of the microenvironment surrounding the cancerous cells, effectively reversing the acidic extra-cellular conditions that are known to be necessary for cancer cell survival. The local production of ammonia at the site of cancerous tissues is thought to readily diffuse into the cancer cells to exert a potent cytotoxic effect by interfering with their critical metabolic functions. As well, the enzymatic action of urease at the site of cancerous cells is believed to be repetitive and sustainable due to the plentiful supply of urea that is furnished by the body.

The Company most recently has been awarded two DOS47 patents from the U.S. patent office, which will expire in 2022. The first patent covers the use of targeted DOS47 based therapeutics as a monotherapy, while the second covers DOS47-based therapeutics to be used in combination regimens with weakly basic chemotherapeutics.

L-DOS47
L-DOS47 is the first targeted therapeutic under development based upon Helix’s DOS47 technology. 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 specifically on cancer tissue, thus reducing any unwanted toxic effects on the body’s healthy cells, as are common with many of today’s chemotherapeutic drugs.

During 2007, Helix made significant progress in its preclinical development program for L-DOS47. Pharmacology studies were conducted in animals demonstrating that L-DOS47 inhibits the growth of tumors derived from a human lung adenocarcinoma cell line. In addition, pilot repeat-dose animal toxicology studies were conducted, through which L-DOS47 was well tolerated at doses within and above the dose range shown to be efficacious in the tumor growth inhibition studies. These findings were paramount in providing critical supportive evidence for IND filing, which Helix expects to complete in 2008.

In parallel with these studies, Helix has advanced its scale-up manufacturing program in anticipation of furnishing product for future clinical testing. Helix signed an agreement with BioVectra to manufacture L-DOS47 bulk drug product for human clinical testing, building upon preliminary work Helix had conducted together with its former manufacturing partner. Initial efforts to scale up the cGMP manufacturing process for L-DOS47 faced some obstacles, however the scaling-up process is now proceeding well. This initial delay has, however, affected Helix’s IND filing estimate, previously planned for the latter half of the 2007 calendar year.

Going forward, Helix is preparing to conduct expanded animal testing and to develop clinical testing protocols in order to satisfy the regulatory requirements for IND filing. Helix intends to seek approval in 2008 from the U.S. Food and Drug Administration (“FDA”) for a Phase I clinical study in lung adenocarcinoma patients. As an integral part of the IND process, Helix also intends to conduct a pre-IND meeting with the FDA in the early part of the 2008 calendar year, to confirm its IND submission plans.

Helix continues to explore opportunities to expand upon its product pipeline with new DOS47-based therapeutics, pending the identification of further tumor targeting agents like the lung adenocarcinoma antibody component of L-DOS47. In addition, Helix believes that L-DOS47 therapy may have benefits both as a monotherapy and in certain combination chemotherapy regimens.

Biochip Technology
Helix’s relationship with Lumera Corporation ("Lumera") materialized in 2005 after the signing of an exclusive sub-licensing agreement of Helix’s biochip technology to Lumera. Most recently Lumera formed a new bioscience subsidiary and initiated a review of partnering opportunities. Consequent upon these actions, Helix reviewed the biochip technology and determined that should the Lumera license be terminated for any reason, Helix would not dedicate any of its resources to the technology due to the Company’s current focus on its other development projects. In addition, the Company believes that future cash flows may not exceed the carrying value of its biochip technology patent and in fiscal 2007 recorded an impairment of its biochip technology.
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.

RECENT CANADIAN ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

Accounting Changes
Effective August 1, 2007, the Company will adopt the new recommendations of the CICA Handbook Section 1506, Accounting Changes. Under these new recommendations, voluntary changes in accounting policy are permitted only when they result in the financial statements providing reliable and/or relevant information. These recommendations also require changes in accounting policy to be applied retrospectively unless doing so is impracticable, require prior period errors to be corrected retrospectively, require enhanced disclosures about the effect of changes in accounting policies, estimates and errors on the financial statements and require disclosure of new primary sources of GAAP that have been issued but not yet effective. The impact that the adoption of this section will have on the Company’s financial statements will depend on the nature of future accounting changes and the required additional disclosure on recent accounting pronouncements as noted below.

Capital Disclosures
CICA Handbook Section 1535, Capital Disclosures, requires disclosure of an entity’s objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically August 1, 2008 for the Company. The Company has not yet determined the impact of the adoption of this change on the disclosure in its consolidated financial statements.

Financial Instruments
In January 2005, the CICA issued Handbook Section 3855, Financial Instruments – Recognition and Measurement; Section 1530, Comprehensive Income; Section 3251, Equity; Section 3861, Financial Instruments – Disclosure and Presentation; and Section 3865, Hedges. The new standards will be effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006, specifically August 1, 2007 for this Company. The new standards will require presentation of separate statement of comprehensive income under specific circumstances. Derivative financial instruments will be recorded in the balance sheet at fair value and the changes in fair value of derivatives designated as cash flow hedges will be reported in comprehensive income. The Company is assessing the impact of the new standards.

Financial Instruments - Disclosure
CICA Handbook Section 3862, Financial Instruments – Disclosure, increases the disclosure currently required that will enable users to evaluate the significance of financial instruments for an entity’s financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risk arising from financial instruments, including specified minimum disclosures about liquidity risk and market risk. The quantitative disclosures must also
include a sensitivity analysis for each type of market risk to which an entity is exposed, showing how net income and other comprehensive income would have been affected by reasonably possible changes in the relevant risk variable. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically August 1, 2008 for the Company. The Company has not yet determined the impact of the adoption of this change on the disclosure in its consolidated financial statements.

Financial Instruments – Presentation
CICA Handbook Section 3863, Financial Instruments – Presentation, replaces the existing requirements on presentation of financial instruments which have been carried forward unchanged to this section. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically August 1, 2008 for the Company. The Company does not expect the adoption of this standard to have any impact on the consolidated financial statements.

Inventories
CICA Handbook Section 3031, Inventories, replaces Section 3030 and establishes new standards for the measurement and disclosure of inventories. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, specifically August 1, 2008 for the Company. The Company has not yet determined the impact of the adoption of this change on the disclosure in its consolidated financial statements.

General Standards on Financial Statement Presentation
CICA Handbook Section 1400, General Standards on Financial Statement Presentation, has been amended to include requirements to assess and disclose an entity’s ability to continue as a going concern. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, specifically August 1, 2008 for the Company. The Company does not expect the adoption of these changes to have an impact on its consolidated financial statements.

International Financial Reporting Standards
The CICA plans to converge Canadian GAAP with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011. The impact of the transition to IFRS on the Company’s consolidated financial statements is not yet determinable.

SELECTED FINANCIAL INFORMATION
The following selected financial information is from the Company’s fiscal years ended July 31:

<table>
<thead>
<tr>
<th>(In thousands of dollars, except for shares and per share data)</th>
<th>2007</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$3,424</td>
<td>$3,965</td>
<td>$3,732</td>
</tr>
<tr>
<td>Expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of sales</td>
<td>1,139</td>
<td>1,341</td>
<td>1,190</td>
</tr>
<tr>
<td>Research and development</td>
<td>4,116</td>
<td>3,368</td>
<td>2,983</td>
</tr>
<tr>
<td>Operating, general and admin</td>
<td>4,418</td>
<td>3,722</td>
<td>3,580</td>
</tr>
<tr>
<td>Amortization of intangibles</td>
<td>159</td>
<td>594</td>
<td>1,244</td>
</tr>
<tr>
<td>Amortization of capital assets</td>
<td>287</td>
<td>315</td>
<td>330</td>
</tr>
<tr>
<td>Stock-based compensation</td>
<td>47</td>
<td>1,710</td>
<td>1,470</td>
</tr>
<tr>
<td>Interest income</td>
<td>(496)</td>
<td>(270)</td>
<td>(137)</td>
</tr>
<tr>
<td>Foreign exchange loss/(gain)</td>
<td>(9)</td>
<td>16</td>
<td>78</td>
</tr>
<tr>
<td>Write-down of intangibles</td>
<td>1,332</td>
<td></td>
<td>428</td>
</tr>
<tr>
<td></td>
<td>10,993</td>
<td>10,796</td>
<td>11,166</td>
</tr>
<tr>
<td>Loss before income taxes</td>
<td>(7,569)</td>
<td>(6,831)</td>
<td>(7,434)</td>
</tr>
<tr>
<td>Income tax provision</td>
<td>(105)</td>
<td>(108)</td>
<td>(191)</td>
</tr>
<tr>
<td>Loss for the year</td>
<td>$ (7,674)</td>
<td>$(6,939)</td>
<td>$(7,625)</td>
</tr>
<tr>
<td>Loss per share</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic and diluted</td>
<td>$ (0.22)</td>
<td>$(0.22)</td>
<td>$(0.28)</td>
</tr>
<tr>
<td>Weighted average number of common shares outstanding</td>
<td>35,615,335</td>
<td>31,409,495</td>
<td>26,959,055</td>
</tr>
<tr>
<td>Total assets</td>
<td>$14,273</td>
<td>$15,469</td>
<td>$11,450</td>
</tr>
</tbody>
</table>
Quarterly Financial Information
The following tables summarize the Company’s unaudited quarterly consolidated financial information for fiscal years ended July 31, 2007, 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.

<table>
<thead>
<tr>
<th>Revenue (in thousands of dollars)</th>
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<tr>
<td></td>
</tr>
<tr>
<td><strong>Q1</strong></td>
</tr>
<tr>
<td><strong>2007</strong></td>
</tr>
<tr>
<td><strong>2006</strong></td>
</tr>
<tr>
<td><strong>2005</strong></td>
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</tbody>
</table>

Revenue consists of (i) royalty payments from Helsinn-Birex relating to its license of the Company’s Klean-Prep™ technology (ii) distribution revenue from Rivex Pharma, a wholly-owned subsidiary of the Company, including the distribution in Canada of Klean-Prep™, and (iii) some contract revenue from research and development work done for Apotex Inc. (“Apotex”).

Distribution revenue consists mainly of revenue from the sale in Canada of Orthovisc®, which prior to the fourth quarter of 2006 was steadily increasing, then began to decline due to the entry of a competitor into the market. Orthovisc® revenues now appear to remain relatively stable just above 2005 levels.

In the second quarter of 2005, pursuant to the Company’s license agreement with Helsinn-Birex, the royalty rate due from the licensee was reduced in half. Since the scheduled reduction, the royalty from Helsinn-Birex has remained steady.

The Company’s license arrangement with Lumera provides for certain minimum royalty payments, one of which was received by the Company in the third quarter of fiscal 2006 along with a contract payment from Apotex in that quarter. These payments contributed to the higher revenue for the said quarter, along with the Orthovisc® revenue which peaked in that quarter.

The contract with Apotex was fully completed and the final payment received in the third quarter of fiscal 2007. The Company currently has no existing plans to contract its research and development services out to others, and instead, is focusing its resources on the development of the Company’s Topical Interferon Alpha-2b.

<table>
<thead>
<tr>
<th>Net loss (in thousands of dollars)</th>
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<tbody>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Q1</strong></td>
</tr>
<tr>
<td><strong>2007</strong></td>
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<tr>
<td><strong>2006</strong></td>
</tr>
<tr>
<td><strong>2005</strong></td>
</tr>
</tbody>
</table>

Quarterly net losses have remained consistent on a quarter over quarter basis with the exception of the second quarter of fiscal 2007 and the higher than average losses in the fourth quarters of each of the last three fiscal years. The large increase in the second quarter of 2007 reflects the significantly higher than normal costs for an annual shareholder meeting of Helix shareholders due to dissident shareholder action and were mainly attributable to higher legal, investor relations, proxy solicitation and related meeting costs. The larger fourth quarter net losses in each of the fiscal years reflects a combination of stock-based compensation expenses and/or one time write downs of intellectual property.

<table>
<thead>
<tr>
<th>Net loss per share (in thousands of dollars)</th>
</tr>
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<tbody>
<tr>
<td></td>
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<tr>
<td><strong>Q1</strong></td>
</tr>
<tr>
<td><strong>2007</strong></td>
</tr>
<tr>
<td><strong>2006</strong></td>
</tr>
<tr>
<td><strong>2005</strong></td>
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</tbody>
</table>

Net loss per share has declined since 2005, partly due to the increase in shares outstanding resulting from the Company’s private placement financings. Quarterly net losses have remained relatively consistent on a quarter over quarter basis with the exception of the fourth quarters in each of the last
three fiscal years, as described under the “Net Loss” table above. The Company had 27,183,726 common shares issued at the beginning of the first quarter in fiscal 2005 and issued an additional 9,151,609 common shares thus ending the fourth quarter of 2007 with 36,335,335 common shares issued and outstanding.

RESULTS FROM OPERATIONS

For the fiscal year ended 2007, the Company recorded a net loss of $7,674,000, which represents an increase of $735,000 when compared to fiscal 2006. In fiscal 2006, the Company recorded a net loss of $6,939,000 and is lower by $686,000 when compared to fiscal 2005. The net loss per common share for the fiscal year ended 2007 was $0.22 and remained unchanged when compared to fiscal 2006. Fiscal 2006’s net loss per share was lower by $0.06 when compared to the loss per common share for fiscal 2005.

Product revenue, license fees and royalties as well as research and development contract revenue all contributed to the decrease in revenue in fiscal 2007 when compared to fiscal 2006. In fiscal 2006, all but license fees and royalties contributed to higher overall revenues when compared to fiscal 2005.

The Canadian dollar continued to strengthen over the last three fiscal years resulting in lower product cost and a continued improvement in product margins.

Overall expenses in fiscal 2007, 2006 and 2005 remained relatively flat, yet during these periods, research and development and operating, general and administrative expenditures continued to increase. Offsetting these increasing costs were lower amortization expense of intangible and capital assets, increasing interest income, and a combination of either stock-based compensation expenses or one time write downs of intangible assets.

Revenues

Total revenues in fiscal 2007 were $3,424,000 and represent a decrease of $541,000 or 13.6% when compared to total revenues in fiscal 2006 of $3,965,000. Product revenue, license fees and royalties as well as research and development contract revenue all contributed to the decrease in revenue in fiscal 2007 when compared to fiscal 2006.

In fiscal 2006, total revenues were higher by $233,000 or 6.2% when compared to fiscal 2005. In fiscal 2006 when compared to fiscal 2005, all but license fees and royalties contributed to higher overall revenues.

Product Revenue

Product revenue in fiscal 2007 totaled $2,764,000 and represents a decrease of $248,000 or 8.2% when compared to product revenue in fiscal 2006 of $3,012,000. Higher product sales of Klean-Prep™ were more than offset by lower sales of Orthovisc® in Canada. Orthovisc® revenue was steadily increasing and peaked in the third quarter of 2006, then declined due to the entry of a competitor into the market. Orthovisc® revenue now appears relatively stable, just above 2005 levels.

In fiscal 2006, product revenue was higher by $556,000 or 22.6% when compared to fiscal 2005. The increase is mainly the result of higher Orthovisc® sales in Canada.

License fees and royalties

License fees and royalties in fiscal 2007 totaled $512,000 and represent a decrease of $261,000 or 33.8% when compared to fiscal 2006. The decrease is mainly the result of lower milestone revenues from the sub-licensing arrangement of the Company’s biochip technology to Lumera.

In fiscal 2006, license fees and royalties were lower by $461,000 or 37.4% when compared to fiscal 2005. The decrease is mainly the result of lower royalty revenues from the royalty rate reduction for Klean-Prep™ sales in Europe. 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.

Research and development contracts

Research and development contract revenue in fiscal 2007 totaled $148,000 and represents a decrease of $32,000 or 17.8% when compared to fiscal 2006. In fiscal 2006, research and development contract
revenue was higher by $138,000 when compared to fiscal 2005. The total research and development contract revenue over the last three years represents an agreement entered into by the Company with Apotex and reflects the timing of milestone payments. This contract was fully completed and the final payment received in the third quarter of fiscal 2007. The Company currently has no existing plans to contract its research and development services out to others and instead, is focusing its resources on the development of the Company’s Topical Interferon Alpha-2b.

Cost of sales and margins
Cost of sales in fiscal 2007 totaled $1,139,000 (2006 - $1,341,000; 2005 - $1,190,000). As a percentage of product revenues, cost of sales in each of the three fiscal years ended 2007, 2006 and 2005 were 41.2%, 44.5% and 48.5%, respectively. The Canadian dollar’s continued strength over the last three fiscal years was the main reason for the lower product cost of sales and, in turn, higher product margins.

Research and development
Included in research and development expenditures are costs associated with salaries and fringe benefits, patents, consulting services, third party contract manufacturing, clinical research organization services, leases for research facilities, utilities, administrative expenses and allocations of corporate costs.

Research and development expenditures in fiscal 2007 totaled $4,116,000 and represent an increase of $748,000 or 22.2% when compared to fiscal 2006. The increase is mainly due to advancing preclinical costs related to L-DOS47. Research and development expenditures related to Topical Interferon Alpha-2b remained relatively flat, with lower expenditures resulting from the conclusion and reporting of the phase II German study results in April 2007 being offset by higher expenditures from the December 2006 commencement of patient enrollment in the new phase II trial in Sweden.

In fiscal 2006, research and development expenditures were higher by $385,000 or 12.9% when compared to fiscal 2005. The ongoing costs of conducting the phase II German study and the then increased scientific and patent activity surrounding L-DOS47 are reflective of the increase in research and development expenditures for the period.

With respect to Topical Interferon Alpha-2b, the Company is currently advancing the next steps following the positive outcome of the German phase II clinical study. The phase II clinical trial in Sweden continues to progress, though at a slower pace than originally anticipated, due to lower patient enrollment numbers. The Company is currently implementing a protocol amendment with the intention of restoring the recruitment rate with enrollment to be completed within the 2008 calendar year.

During fiscal 2007, the Company further expanded its research and development activities of its L-DOS47 drug candidate and is undergoing a series of pharmacokinetic, toxicology and efficacy modeling studies in animals. Most recently, the Company was awarded two patents for DOS47, in the treatment of cancer, by the U.S Patent and Trademark Office. The first patent describes the method and composition in combining DOS47 with a targeting agent and the second, in combining DOS47 therapeutics with weakly basic chemotherapeutic drugs in adjunct treatment applications.

Initial efforts to scale up a cGMP manufacturing process for an L-DOS47 bulk drug product for human clinical testing faced some initial obstacles, however the scale-up process is now proceeding well. This initial delay has resulted in the anticipated filing of an IND to occur in 2008, instead of the latter half of 2007, as originally planned.

As both Topical Interferon Alpha-2b and L-DOS47 are in the early stages of development and their continued development will depend on successfully reaching a number of milestones over the next several years, it is not possible at this time to estimate costs and timing to commercial production, or whether commercial production will occur at all. Such milestones include, without limitation, successfully completing a series of clinical trials, obtaining regulatory approvals, and successfully up-scaling the manufacturing process through to commercial production. In the event that one or more of these milestones are not reached successfully or in a timely manner, the further development of the drug product candidate will be adversely affected or abandoned, which would have a material adverse effect on the Company. See also “Risks and Uncertainties”.
The following table outlines research and development costs expensed for the Company’s significant research and development projects for the fiscal years ended July 31:

<table>
<thead>
<tr>
<th>Research and Development Costs (thousands of dollars)</th>
<th>2007</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interferon</td>
<td>$1,814</td>
<td>$1,881</td>
<td>$1,620</td>
</tr>
<tr>
<td>DOS47</td>
<td>2,302</td>
<td>1,328</td>
<td>1,205</td>
</tr>
<tr>
<td>Other</td>
<td>-</td>
<td>159</td>
<td>158</td>
</tr>
<tr>
<td>Totals</td>
<td>$4,116</td>
<td>$3,368</td>
<td>$2,983</td>
</tr>
</tbody>
</table>

**Operating general and administration**
Operating, general and administration expenses in fiscal 2007 totaled $4,418,000 and represent an increase of $696,000 or 18.7% when compared to fiscal 2006. A shareholder proxy dispute significantly increased the cost related to the Company’s annual shareholder meeting held on January 23, 2007 and represents the bulk of the increase in operating, general and administration expenses. These significantly higher than normal costs for an annual shareholder meeting of Helix shareholders, were mainly attributable to higher legal, investor relations, proxy solicitation and related meeting costs. In addition, higher D&O insurance premium, wages and other consulting services were partially offset by lower marketing promotional costs and sales commissions.

In fiscal 2006, operating, general and administration expenses were higher by $142,000 or 4.0% when compared to fiscal 2005. The increase is mainly attributable to higher employee wages, agent commissions and insurance which were partially offset by lower consulting, legal and audit fees.

**Amortization of intangible and capital assets**
Amortization of intangible assets in fiscal 2007 totaled $159,000 and represents a decrease of $435,000 when compared to fiscal 2006. In fiscal 2006, amortization of intangible assets was lower by $650,000 when compared to fiscal 2005. A certain intangible asset was fully amortized in 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 2007, 2006 and 2005 decreased marginally on a year over year basis and is mainly the result of lower capital asset purchases over the three fiscal years.

**Stock-based compensation**
Stock-based compensation expense in fiscal 2007 totaled $47,000 and represents a decrease of $1,663,000 when compared to fiscal 2006. The Company has not issued any stock options in fiscal 2007 and the stock-based compensation expense during the year represents the ongoing amortization of compensation costs of stock options granted on June 30, 2005, over their vesting period. The decrease represents the fair value of the 931,000 options issued by the Company in fiscal 2006.

In fiscal 2006, stock-based compensation expense was higher by $240,000 or 16.3% when compared to fiscal 2005. The Company issued 1,151,500 stock options in fiscal 2005 with a fair value per stock option lower than the stock options issued in fiscal 2006.

**Interest income**
Interest income totaled $496,000 in fiscal 2007, $270,000 in 2006 and $137,000 in 2005. The stepped increase on a year over year basis is mainly the result of higher on hand cash balances and interest rates over the three fiscal years.

**Foreign exchange loss**
The Company realized a foreign exchange gain of $9,000 in fiscal 2007, which compares favorably to the foreign exchange losses realized in the 2006 and 2005 fiscal years, which totaled $16,000 and $78,000 respectively.

The Canadian dollar appreciation against the US dollar over the past three years reversed the foreign exchange losses of previous years which resulted from the net assets of the Company’s integrated foreign operation in Europe. The net assets in Europe consist mainly of cash and cash equivalents, denominated in euro currency and are used to fund clinical trials of the Topical Interferon Alpha-2b in Europe.
Impairment of intangible assets
An impairment of intangible assets totaled $1,332,000 in fiscal 2007, nil in 2006 and $428,000 in 2005.

The Company believes future cash flows may not exceed the carrying value of its biochip technology patent and in fiscal 2007 recorded an impairment of its biochip technology. See “Biochip Technology” above.

In 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 totaled $105,000 in fiscal 2007, $108,000 in 2006 and $191,000 in 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 2007 and 2006 when compared to 2005.

LIQUIDITY, CAPITAL RESOURCES AND OUTLOOK
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, investment tax credits, and revenues from distribution, licensing and contract services. Since the Company does not have net earnings from its operations, the Company’s long-term liquidity depends on its ability to access the capital markets, which depends substantially on the Company’s ongoing research and development programs.

In the first quarter of fiscal 2007, the Company completed a private placement by issuing 3,650,000 common shares with net proceeds of $6,480,000.

At July 31, 2007, the Company had cash and cash equivalents, comprised of short-term investments totaling $11,379,000 (2006 – $11,032,000). 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.

At July 31, 2007 the total number of common shares issued and outstanding was 36,335,335 (2006 – 32,685,335).

At July 31, 2007, the Company’s working capital was $11,468,000 (2006 - $10,900,000). After taking into consideration the Company’s anticipated revenue, planned research and development expenditures and assuming no unanticipated expenses, the Company expects that its working capital will be sufficient to finance operations through to September 2008. The Company has no external sources of liquidity such as lines of credit. At present, the Company considers that it will be necessary to conclude one or more debt or equity financings in the near term to be able to continue with its existing business plan. The current market for both debt and equity financings for companies such as Helix is challenging and there can be no assurance that financing, whether debt or equity, will be available on acceptable terms, or at all. The failure to obtain financing on a timely basis (i) may result in the Company's having to reduce or delay one or more of its planned research, development and marketing programs and to reduce related overhead, any of which could impair the Company’s current and future value, and (ii) may have a material adverse effect on the Company’s ability to continue. 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 such alternative sources of funding will be available.
**CONTRACTUAL COMMITMENTS**

The following table depicts the Company’s contractual commitments as at July 31, 2007:

<table>
<thead>
<tr>
<th>(in thousands of dollars)</th>
<th>Total</th>
<th>&lt; 1 year</th>
<th>1 to 3 years</th>
<th>4 to 5 years</th>
<th>&gt; 5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Purchasing</td>
<td>$1,210</td>
<td>$661</td>
<td>$549</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>(ii) Operating leases</td>
<td>352</td>
<td>243</td>
<td>109</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>(iii) Consulting services</td>
<td>151</td>
<td>151</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>(iv) Research services</td>
<td>828</td>
<td>621</td>
<td>77</td>
<td>10</td>
<td>120</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$2,541</td>
<td>$1,676</td>
<td>$735</td>
<td>$10</td>
<td>$120</td>
</tr>
</tbody>
</table>

i) Orthovisc® purchase commitments

ii) Office, warehouse and research facilities

iii) General consulting services (primarily IND regulatory work)

iv) Research and development commitments related to research and development projects initiated via contract or agreement. Payment commitments are made when the relevant work is completed as per contract or agreement.

**SUBSEQUENT EVENT**

Mr. Jerome F. McElroy resigned as Chairman and Director of the Company subsequent to the Company’s fiscal year ended July 31, 2007. The Company has agreed to pay Mr. McElroy the equivalent of approximately one year’s salary and benefits in a lump-sum payment of $350,000 plus termination payments for one year of $3,000 per month and contributions to his medical benefits of $12,000 per year for four years. These amounts will be accounted for in the first quarter of fiscal 2008.

**OFF-BALANCE SHEET ARRANGEMENTS**

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

**FINANCIAL INSTRUMENTS**

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair values due to their short-term maturities.

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.

Cash and cash equivalents and investments are invested in certain instruments of varying maturities. Consequently, the Company is exposed to interest rate risk as a result of holding investments of varying maturities.

The Company is exposed to foreign exchange risk as a result of transactions in currencies other than its functional currency, the Canadian dollar. The majority of the Company’s revenues in fiscal 2007 are transacted in Canadian dollars, with a portion denominated in Euros and to a lesser extent, in U.S. dollars. Purchases of inventory are primarily transacted in U.S. dollars while other expenses, consisting of the majority of salaries, operating costs and overhead are incurred primarily in Canadian dollars. Research and development expenditures are incurred in both Euros and Canadian dollars.

The Company maintains net monetary asset and/or liability balances in foreign currencies and does not engage in currency hedging activities using financial instruments.

**RELATED PARTY TRANSACTIONS**

Effective September 2006, the Company’s contractual arrangement to pay a director of a subsidiary company for consulting services was terminated. Prior to September 2006, the Company paid the director $2,500 per month for consulting services.
For the fiscal year ended July 31, 2007, the Company paid $255,000 (2006 - $193,000; 2005 – $231,000) to Cawkell Brodie Glaister LLP, legal counsel to the Company, for legal services rendered. A director and the Corporate Secretary of the Company, Ken Cawkell, is a partner of Cawkell Brodie Glaister LLP.

For the fiscal year ended July 31, 2007, the Company received $148,000 (2006 – $180,000; 2005 – $42,000) for contracted research and development services provided to Apotex. Apotex is considered a related party, as a director of the Company, Jack Kay, is also the President and Chief Operating Officer of Apotex.

The following table depicts the Company’s related party transactions for the fiscal years ended July 31:

<table>
<thead>
<tr>
<th>(in thousands of dollars)</th>
<th>2007</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional, legal and consulting fees to directors, partnerships and/or companies in which directors have a substantial interest</td>
<td>255</td>
<td>193</td>
<td>231</td>
</tr>
<tr>
<td>Research and development contract revenue with Apotex Inc.</td>
<td>148</td>
<td>180</td>
<td>42</td>
</tr>
</tbody>
</table>

CASH FLOW

Net loss from operations totaled $7,674,000 in fiscal 2007, $6,939,000 in 2006 and $7,625,000 in 2005. Adjusting for non-cash working capital items, the cash used in operating activities totaled $6,079,000 in fiscal 2007, $4,102,000 in 2006 and $4,738,000 in 2005. On a monthly basis, the average monthly cash expenditures were approximately $507,000 in fiscal 2007, $342,000 in 2006 and $395,000 in 2005. The higher monthly expenditures in fiscal 2007 were primarily due to higher research and development expenditures, changes in working capital and the costs associated with the 2007 Annual General Meeting.

Financing activities provided additional cash of $6,480,000 in fiscal 2007, $8,808,000 in 2006 and $5,238,000 in 2005. Virtually all of the cash provided from financing activities are attributable to the Company completing various rounds of private placement financings.

Investing activities represented a source of cash in fiscal 2007 and 2005 of $6,577,000 and $111,000, respectively while in fiscal 2006 investing activities represented a use of cash totaling $4,428,000. When appropriate, the Company maintains excess funds in risk free, short term interest bearing investments and redeems these funds as required for its daily operating requirements. In fiscal 2006, the use of funds reflected the net purchase of short term investments with a value of $4,170,000 and subsequently redeemed $6,640,000 in fiscal 2007.

OUTSTANDING SHARE DATA

As at October 25, 2007, the Company had outstanding 36,335,335 common shares, warrants to purchase up to 9,145,609 common shares and incentive stock options to purchase up to 3,272,500 common shares.

All outstanding warrants expire on March 31, 2008. Each warrant entitles the holder to purchase one common share at prices ranging between $2.39 and $2.70

The incentive stock options have exercise prices that range between $2.00 and $5.50 and expire in three tranches (July 31, 2008 – 1,231,000; June 30, 2010 – 1,130,500 and July 31, 2011 – 911,000).

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that information that is required to be disclosed in the prescribed filings and reports filed with Canadian securities regulatory authorities are recorded, processed, summarized and reported on a timely basis, and is accumulated and communicated to management, including the Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”) as appropriate to allow timely decisions regarding required disclosure.

Based on their evaluations as of July 31, 2007, the CEO and CFO have concluded that the Company’s disclosure controls and procedures are effective to ensure that information that is required to be disclosed
in prescribed documents and reports the Company files or submits under the Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified in such legislation.

INTERNAL CONTROL OVER FINANCIAL REPORTING
The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

The Company has identified the need for improvement with regards to segregation of duties, complex accounting 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 actions 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 2007, the Company did not make any changes to its systems of internal controls. In fiscal 2008 the Company will undergo a detailed analysis of internal controls as it undergoes an implementation of a new financial accounting system.

FORWARD LOOKING STATEMENTS AND INFORMATION
This Management’s Discussion and Analysis contains forward-looking statements and information, which are statements and information 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 and information can be identified by the use of forward-looking terminology such as “expects”, “committed to”, “plans”, “designed to”, “potential”, “to become”, “is developing”, “believes”, “intends”, “continues”, “going forward”, “opportunities”, “in anticipation”, “2008”, “next”, “toward”, “ongoing”, “pursue”, “to seek”, 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 and information are statements and information about the future and are inherently uncertain, and are necessarily based upon a number of estimates and assumptions that are also uncertain. The Company’s actual results could differ materially from those anticipated in these forward-looking statements and information as a result of numerous factors, including those referred to below under “Risks and Uncertainties”, any of which could cause actual results to vary materially from current results or the Company’s anticipated future results. The Company assumes no responsibility to update the information contained herein except as required by law.

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 statement or information. Accordingly, reported financial information and forward-looking statements and information 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 capital in the near term, which may not be available in a timely manner or at all and which, if not obtained, will have a material adverse impact on the Company and its ability to continue; uncertainty whether an IND or CTA will be compiled or submitted for Topical
Interferon Alpha-2b or L-DOS47 as currently planned or at all, or if submitted, whether the Company will be permitted to undertake human testing; uncertainty whether Topical Interferon Alpha-2b or L-DOS47 will be successfully developed and marketed as a drug or at all; intellectual property risks, including the possibility that patent applications may not result in issued patents, that issued patents may be circumvented or challenged and ultimately struck down, that any upcoming expiry of an issued patent may negatively impact the further development or commercialization of the underlying technology, and that the Company may not be able to protect its trade secrets or other confidential proprietary information; research and development risks, including uncertainty whether the L-DOS47 preclinical program will be completed as planned or at all; the risk of obtaining negative findings or factors that may become apparent during the course of research or development which may result in the discontinuation of the research or development projects; partnership/strategic alliance risks and in particular, the need for performance by the Company's licensees and other collaborators; the risk that the Company's license optionee for Topical Interferon Alpha-2b may not continue to provide the Company with interferon alpha-2b or exercise its option, which would have a material adverse effect on the drug's further development and commercialization; the need to secure new strategic relationships, which is not assured, to commercialize L-DOS47 and any other drug candidates which may arise out of DOS47; 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; manufacturing risks, the need to manufacture to regulatory standards, and uncertainty whether the manufacturing process for the Company's drug candidates can be further scaled-up successfully 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; 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; uncertainty as to availability of raw materials, and in particular, cGMP grade materials, on acceptable terms or at all; product liability and insurance risks; the effect of competition; the risk of unknown side effects; the possibility that the Company will pursue additional development projects or other business opportunities; government regulation and the need for regulatory approvals for both the development and commercialization of products, which are not assured; rapid technological change and competition from pharmaceutical companies, biotechnology companies and universities, which may make the Company's technology or products obsolete or uncompetitive; risks associated with claims of infringement of intellectual property and of proprietary rights; exchange rate fluctuations; political, economic and environmental risks; the risk of unanticipated expenses or unanticipated reductions in revenue, or both; the risk of litigation which could be time-consuming and expensive and which the Company might lose; the risk that the Company may be called upon to indemnify its directors and officers, pursuant to indemnity agreements entered into with them; and other risk factors that are discussed or identified in the Company's public filings, including those discussed under the heading "Risk Factors" in the Company's latest Annual Information Form at www.sedar.com, which are incorporated herein by reference.

ADDITIONAL INFORMATION
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.

Dated October 25, 2007