ONCOLYTICS BIOTECH INC
Form SUPPL
December 01, 2008

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

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

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

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

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

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

**New Issue** **December 1, 2008**

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

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

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

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

**Notes:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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## IMPORTANT NOTICE ABOUT THE INFORMATION IN THIS PROSPECTUS SUPPLEMENT

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

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

## DEFINITIONS AND OTHER MATTERS

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

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

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

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

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

## SPECIAL NOTICE REGARDING FORWARD-LOOKING STATEMENTS

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

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

## ELIGIBILITY FOR INVESTMENT

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

## DOCUMENTS INCORPORATED BY REFERENCE

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

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

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

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

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

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

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

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

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

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

## DOCUMENTS FILED AS PART OF THE REGISTRATION STATEMENT

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

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

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## ONCOLYTICS BIOTECH INC.

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

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

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

## OUR BUSINESS

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

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

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

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

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

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

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

## RECENT DEVELOPMENTS

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

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

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

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

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

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

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

* patients still on study

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

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

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

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

## CAPITALIZATION

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

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

## MARKET FOR SECURITIES

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

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

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

## USE OF PROCEEDS

Assuming all of the 2,500,000 Units are sold and that the Over-Allotment Option is not exercised, the estimated net proceeds to be received by us from the sale of the Units will be $3,280,000