ONCOLYTICS BIOTECH INC
Form 6-K
April 26, 2006

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934

For the month of **April 2006**

Commission File Number 000-31062

Oncolytics Biotech Inc.

(Translation of registrant s name into English)

Suite 210, 1167 Kensington Crescent NW
Calgary, Alberta, Canada T2N 1X7

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F o Form 40-F þ

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): o

Note: Regulation S-T Rule 101(b)(1) only permits the submission in paper of a Form 6-K if submitted solely to provide an attached annual report to security holders.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): o

Note: Regulation S-T Rule 101(b)(7) only permits the submission in paper of a Form 6-K if submitted to furnish a report or other document that the registrant foreign private issuer must furnish and make public under the laws of the jurisdiction in which the registrant is incorporated, domiciled or legally organized (the registrant s home country), or under the rules of the home country exchange on which the registrant s securities are traded, as long as the report or other document is not a press release, is not required to be and has not been distributed to the registrant s security holders, and, if discussing a material event, has already been the subject of a Form 6-K submission or other Commission filing on EDGAR.

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes o No þ

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82 - _____

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Oncolytics Biotech Inc.
(Registrant)

Date April 26, 2006

By: /s/ Douglas A. Ball

Douglas A. Ball
Chief Financial Officer

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210, 1167 Kensington Cr. N.W
Calgary, Alberta
Canada T2N 1X7

FOR IMMEDIATE RELEASE

Oncolytics Biotech Inc. Announces 2006 First Quarter Results

CALGARY, AB, - April 26, 2006 - Oncolytics Biotech Inc. (Oncolytics) (TSX:ONC, NASDAQ:ONCY) today announced its financial results and highlights for the three-month period ended March 31, 2006.

First Quarter Highlights

Announced the commencement of the National Cancer Institute s solicitation process for two monotherapy trials in the U.S. using REOLYSIN®.

Secured two U.S. patents and one Canadian patent covering a variety of uses and methods of producing the reovirus.

Announced that Oncolytics research collaborators were chosen to deliver two poster presentations covering REOLYSIN® clinical trial data at the American Society of Clinical Oncology (ASCO) Annual Meeting to be held June 2-6, 2006 in Atlanta, Georgia. The presentations will cover additional interim results of Oncolytics U.K. Phase I systemic administration trial, and final results of its Canadian Phase I recurrent malignant glioma trial.

Oncolytics collaborators presented preclinical results at the 9th Annual Conference of the British Society for Gene Therapy in London, U.K. that indicated that immune interventions which prolong local viral replication and/or enhance levels of tumour specific T cells, should have significant therapeutic impacts both against the local injected tumour and against systemic metastatic disease not accessible to direct viral injection.

On April 4, Oncolytics collaborators delivered an oral presentation covering interim results of the Phase I combination REOLYSIN®/radiation clinical trial at the American Association for Cancer Research (AACR) Annual Meeting. The interim results demonstrated that the combination of intratumoural REOLYSIN® and radiation was well tolerated and that both local clinical responses and early indications of systemic effects were observed.

Oncolytics collaborators presented a poster at the AACR with results indicating that the reovirus exhibited significant anti-tumour activity against a variety of pediatric sarcoma cell lines *in vitro* and *in vivo*, leading the investigators to conclude that a clinical trial of systemic reovirus in pediatric solid tumours is warranted.

During the quarter, we continued to make important progress in our clinical and preclinical trial program, said Dr. Brad Thompson, President and CEO of Oncolytics. We have developed a more thorough understanding of the interaction of REOLYSIN® with the immune system and in combination with radiation therapy.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion and analysis should be read in conjunction with the unaudited financial statements of Oncolytics Biotech Inc. as at and for the three months ended March 31, 2006 and 2005, and should also be read in conjunction with the audited financial statements and Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) contained in our annual report for the year ended December 31, 2005. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

FORWARD-LOOKING STATEMENTS

The following discussion contains forward-looking statements, within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements, including our belief as to the potential of REOLYSIN® as a cancer therapeutic and our expectations as to the success of our research and development and manufacturing programs in 2006 and beyond, future financial position, business strategy and plans for future operations, and statements that are not

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historical facts, involve known and unknown risks and uncertainties, which could cause our actual results to differ materially from those in the forward-looking statements. Such risks and uncertainties include, among others, the need for and availability of funds and resources to pursue research and development projects, the efficacy of REOLYSIN® as a cancer treatment, the success and timely completion of clinical studies and trials, our ability to successfully commercialize REOLYSIN®, uncertainties related to the research, development and manufacturing of pharmaceuticals, uncertainties related to competition, changes in technology, the regulatory process and general changes to the economic environment. Investors should consult our quarterly and annual filings with the Canadian and U.S. securities commissions for additional information on risks and uncertainties relating to the forward-looking statements. Forward looking statements are based on assumptions, projections, estimates and expectations of management at the time such forward looking statements are made, and such assumptions, projections, estimates and/or expectations could change or prove to be incorrect or inaccurate. Investors are cautioned against placing undue reliance on forward-looking statements. We do not undertake to update these forward-looking statements.

OVERVIEW

Oncolytics Biotech Inc. is a Development Stage Company

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

General Risk Factors

Prospects for biotechnology companies in the research and development stage should generally be regarded as speculative. It is not possible to predict, based upon studies in animals, or early studies in humans, whether a new therapeutic will ultimately prove to be safe and effective in humans, or whether necessary and sufficient data can be developed through the clinical trial process to support a successful product application and approval.

If a product is approved for sale, product manufacturing at a commercial scale and significant sales to end users at a commercially reasonable price may not be successful. There can be no assurance that we will generate adequate funds to continue development, or will ever achieve significant revenues or profitable operations. Many factors (e.g. competition, patent protection, appropriate regulatory approvals) can influence the revenue and product profitability potential.

In developing a pharmaceutical product, we rely upon our employees, contractors, consultants and collaborators and other third party relationships, including the ability to obtain appropriate product liability insurance. There can be no assurance that these reliances and relationships will continue as required.

In addition to developmental and operational considerations, market prices for securities of biotechnology companies generally are volatile, and may or may not move in a manner consistent with the progress being made by Oncolytics.

REOLYSIN® Development Update for the First Quarter of 2006

We continue to develop our lead product REOLYSIN® as a possible cancer therapy. Our goal each year is to advance REOLYSIN® through the various steps and stages of development required for potential pharmaceutical products. In order to achieve this goal, we actively manage the development of our clinical trial program, our pre-clinical and collaborative programs, our manufacturing process and supply, and our intellectual property.

Clinical Trial Program

In the first quarter of 2006, we continued to actively enroll patients in our three ongoing clinical trials (two systemic monotherapy delivery studies and one local delivery study using REOLYSIN® in combination with radiation therapy). We were also able to report on the conclusion of patient follow up in our Canadian malignant glioma clinical trial reporting that the intratumoural administration of REOLYSIN® was well tolerated and a maximum tolerated dose was not reached.

In the first quarter of 2006, the U.S. National Cancer Institute commenced its solicitation process for two clinical trial studies, a Phase II study of REOLYSIN® administered systemically in patients with melanoma and a Phase I/II study of REOLYSIN® co-administered both systemically and intraperitoneally (IP) in patients with ovarian cancer. The purpose

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of the Phase I portion of the trial is to determine the Maximum Tolerated Dose of REOLYSIN® given by IP administration in combination with a constant systemic dose and dosing regimen. We are also preparing clinical trial applications for additional clinical studies that will be filed upon the conclusion of our existing radiation combination and systemic clinical trials.

In January 2006, we announced that an oral presentation of the preliminary results of our Phase I combination REOLYSIN®/radiation clinical trial was scheduled to be made at the American Association for Cancer Research (AACR) annual meeting held April 1 5, 2006 in Washington D.C. *(see Recent 2006 Progress).*

In March 2006, we announced that two of our clinical trial investigators were scheduled to deliver poster presentations at the American Society of Clinical Oncology (ASCO) annual meeting to be held June 2 6, 2006 in Atlanta, Georgia. A poster entitled A Phase I study of a wild-type reovirus (Reolysin) given intravenously to patients with advanced malignancies is scheduled to be presented by Dr. Johann S. de Bono of The Royal Marsden Hospital and The Institute of Cancer Research, U.K. A poster entitled A phase I trial of intratumoral (i.t.) administration of reovirus in patients with histologically confirmed recurrent malignant gliomas (MGs) is scheduled to be presented by Dr. P.A. Forsyth of the University of Calgary and the Alberta Cancer Board.

Manufacturing and Process Development

We currently have sufficient REOLYSIN® to supply our clinical trial program presently underway. In the first quarter of 2006, we continued to contract cGMP (current good manufacturing practices) production runs to supply our expanding clinical trial program. We continued process development activity focused on improving process yields and increasing production scale.

Pre-Clinical Trial and Collaborative Program

We perform pre-clinical studies and engage in collaborations to help support our clinical trial programs and expand our intellectual property base. In the first quarter of 2006, we continued with studies examining the interaction between the immune system and the reovirus, the use of the reovirus as a co-therapy with existing chemotherapeutics and radiation, the use of new RAS active viruses as potential therapeutics, and to investigate new uses for the reovirus in therapy.

In the first quarter of 2006, one of our collaborators presented a poster at the British Society of Gene Therapy 3rd annual conference in London U.K. Our investigators concluded that immune interventions which prolong local viral replication, and/or enhance levels of tumour specific T cells, should have significant therapeutic impacts both against the local, injected tumour and against systemic metastatic disease not accessible to direct viral injection.

Intellectual Property

In the first quarter of 2006, two U.S. and one Canadian patents were issued. At the end of the first quarter of 2006, we had been issued a total of 15 U.S., five Canadian and two European patents. We also have other patent applications filed in the U.S., Europe and Canada and other jurisdictions.

Financial Impact

We estimated at the beginning of 2006 that our monthly cash usage would be approximately $1,500,000 for 2006. Our cash usage for the first quarter of 2006 was $2,461,213 from operating activities and $258,329 for the purchases of intellectual property and capital assets. We expect that our monthly cash usage will increase to be in line with our estimate during the remainder of 2006 as we progress into our Phase II clinical trial program and commence patient enrollment. Our net loss for the first quarter of 2006 was $2,994,536.

Cash Resources

We exited the first quarter of 2006 with cash resources totaling $37,686,625 (see *Liquidity and Capital Resources).*

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Expected REOLYSIN® Development for the Remainder of 2006

We continue to believe that patient enrollment in our two U.K. clinical trials and our U.S. systemic trial will conclude in 2006 and we believe that we will be able to report additional patient data pertaining to these trials. The timing of when and what we are able to report will be determined in conjunction with the principal investigators and the clinical trial sites.

We plan to file additional clinical trial applications in 2006 that focus on specific cancer indications and drug/treatment combinations. We believe that the results from our existing clinical trials will provide us with support to move into Phase II studies.

We expect to produce REOLYSIN® in 2006 to supply our expanding clinical trial program. We also plan to continue process yield improvement and scale up studies in 2006 in an effort to continue to improve our manufacturing process.

Recent 2006 Progress

Interim Clinical Trial Results

On April 4, 2006, interim results from our Phase I combination REOLYSIN®/radiation clinical trial was presented at the AACR annual meeting in Washington D.C. Preliminary observations in the first seven patients show that the combination of intratumoural REOLYSIN® and radiation has been well-tolerated. Most toxicities have been mild, generally grade 1 and 2, and include fever, sweating and skin erythema. One patient in the second cohort developed grade 3 fatigue and grade 2 flu-like symptoms and could not receive the second REOLYSIN® injection. There has been no evidence that the REOLYSIN® injections exacerbated the acute reactions expected from the radiation. There was also no evidence of viral shedding in the blood, urine, stool or sputum on day eight post-REOLYSIN® injection. Interim analysis has shown evidence of local responses and an indication of systemic effects. Amongst the first five patients that completed treatment, three patients had partial tumour responses. There was one case of progressive disease at one month, one case of stable disease at one month, two cases of partial responses at one, two and three months and one case of stable disease at one and two months, which became a pathological partial response at three months. CT scans from the treated lymph node tumour in the first patient in the trial clearly show the partial response, which has now lasted for over eight months. A metastatic tumour in this patient that was outside the radiation field also showed a partial response.

Research Collaboration Results

On April 4, 2006, a poster by Dr. E. Anders Kolb was presented at the AACR annual meeting in Washington D.C. The investigators tested reovirus against various pediatric sarcoma cell lines in vitro and in vivo. In all tumor lines evaluated, the reovirus exhibited significant antitumor activity. The investigators concluded that REOLYSIN® demonstrates excellent anti-tumor activity *in vitro* and *in vivo* in childhood sarcoma cell lines, and that these promising results suggest that a clinical trial of systemic reovirus in pediatric solid tumors is warranted.

RESULTS OF OPERATIONS

Net loss for the three month period ending March 31, 2006 was $2,994,536 compared to $2,377,049 for the three month period ending March 31, 2005.

Research and Development Expenses (R&D)

	2006 $	**2005 $**
Manufacturing and related process development expenses	**851,791**	838,608
Clinical trial expenses	**503,974**	232,348
Pre-clinical trial expenses and collaborations	**189,229**	236,190
Other R&D expenses	**371,328**	323,118
Research and development expenses	**1,916,322**	1,630,264

For the first quarter of 2006, R&D increased to $1,916,322 compared to $1,630,264 for the first quarter of 2005. The increase in R&D was due to the following:

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Manufacturing & Related Process Development (M&P)

	2006 $	2005 $
Product manufacturing expenses	**652,073**	802,029
Process development expenses	**199,718**	36,579
Manufacturing and related process development expenses	**851,791**	838,608

Our M&P expenses for the first quarter of 2006 increased to $851,791 compared to $838,608 for the first quarter of 2005. In the first quarter of 2006, we completed the production runs that were ongoing at the end of 2005 as we continue our focus on the production of REOLYSIN® in order to supply our expanding clinical trial program and other research activity. We also entered into additional production run contracts that are scheduled to occur throughout the remainder of 2006.

Our process development expenses increased to $199,718 for the first quarter of 2006 compared to $36,579 for the first quarter of 2005. In the first quarter of 2006, we incurred process development costs associated with scale up studies and the validation of the fill process used by our manufacturer.

We still expect that our product manufacturing expenses for the remainder of 2006 will remain consistent compared to 2005. However, we may choose to increase our product manufacturing commitments in 2006 if we believe we will need additional REOLYSIN® as our clinical trial program progresses.

For the remainder of 2006, our process development expenses are expected to increase compared to 2005. We will continue to work on improving process yields. We are also expecting to incur additional process development expenses associated with the ongoing scale up of our manufacturing process.

Clinical Trial Program

	2006 $	2005 $
Direct clinical trial expenses	**456,840**	232,348
Other clinical trial expenses	**47,134**	
Clinical trial expenses	**503,974**	232,348

During the first quarter of 2006, our direct clinical trial expenses increased to $456,840 compared to $232,348 for the first quarter of 2005. In the first quarter of 2006, we incurred direct patient costs in our three ongoing clinical trials compared to only one enrolling clinical trial study in the first quarter of 2005. As well in the first quarter of 2006, we incurred costs associated with the patient follow up segment of our Canadian glioma clinical trial.

We expect our clinical trial expenses will continue to increase for the remainder of 2006 compared to 2005. The increase in these expenses is expected to arise from enrollment in our existing clinical trial program and expansion into Phase II clinical trials.

Pre-Clinical Trial Expenses and Research Collaborations

	2006 $	2005 $
Research collaboration expenses	**146,436**	183,423
Pre-clinical trial expenses	**42,793**	52,767

Pre-clinical trial expenses and research collaborations	**189,229**	236,190

During the first quarter of 2006, our research collaboration expenses were $146,436 compared to $183,423 for the first quarter of 2005. Our research collaboration activity continues to focus on the interaction of the immune system and the reovirus, the use of the reovirus as a co-therapy with existing chemotherapeutics and radiation, the use of new RAS active viruses as potential therapeutics, and to investigate new uses of the reovirus in therapy.

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During the first quarter of 2006, our pre-clinical trial expenses were $42,793 compared to $52,767 for the first quarter of 2005. The frequency of our pre-clinical trial expenses change from period to period as we move through our clinical trial program. As well, we may increase our pre-clinical activity depending on the results of our research collaborations.

For the remainder of 2006, we still expect that pre-clinical trial expenses and research collaborations will remain consistent compared to 2005. We expect to continue expanding our collaborations in order to provide support for our expanding clinical trial program. However, in our efforts to enter into additional combination therapy clinical trials we may be required to perform additional pre-clinical trial studies which could increase these costs compared to 2005.

Other Research and Development Expenses

	2006 **$**	**2005** **$**
R&D consulting fees	**32,955**	76,003
R&D salaries and benefits	**321,125**	208,437
Quebec scientific research and experimental development refund	**(52,344)**	
Other R&D expenses	**69,592**	38,678
Other research and development expenses	**371,328**	323,118

During the first quarter of 2006, our R&D consulting fees decreased to $32,955 compared to $76,003 in 2005. In the first quarter of 2005 we incurred consulting costs associated with our initial two U.S. clinical trial applications. In the first quarter of 2006, we did not incur this type of consulting service.

Our R&D salaries and benefits costs were $321,125 in the first quarter of 2006 compared to $208,437 in the first quarter of 2005. The increase is a result of increases in salary levels along with the hiring of our Chief Medical Officer in the third quarter of 2005.

We expect that our Other R&D expenses for the remainder of 2006 will remain consistent with 2005. We expect that salaries and benefits will increase as 2006 should include a complete year of salary and benefit costs for our Chief Medical Officer. This increase should be offset by a decline in our R&D consulting fees as we do not expect to require the same level of consulting services in 2006 as we incurred in 2005. However, we may choose to engage additional consultants to assist us in the development of protocols and regulatory filings for our additional combination therapy and phase II clinical trial studies, possibly causing our R&D consulting expenses to increase.

Operating Expenses

	2006 **$**	**2005** **$**
Public company related expenses	**834,720**	518,104
Office expenses	**283,216**	238,212
Operating expenses	**1,117,936**	756,316

During the first quarter of 2006, our public company related expenses increased to $834,720 compared to $518,104 for the first quarter of 2005. The increase in public company related expenses was a result of an increase in our investor relations activity in the first quarter of 2006 compared to 2005.

During the first quarter of 2006, our office expenses increased to $283,216 compared to $238,212 for the first quarter of 2005. Our office expense activity has remained consistent in the first quarter of 2006 compared to the first quarter of 2005 with the change mainly due to increased compensation levels.

Commitments

As at March 31, 2006, we are committed to payments totaling $1,800,000 during the remainder of 2006 for activities related to clinical trial activity and collaborations. All of these committed payments are considered to be part of our normal course of business.

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SUMMARY OF QUARTERLY RESULTS

The following unaudited quarterly information is presented in thousands of dollars except for per share amounts:

	2006	2005			2004			
	March	Dec.	Sept.	June	March	Dec.	Sept.	June
Revenue[1]	292	160	211	168	245	205	194	183
Net loss[2],[5]	2,995	3,941	3,510	2,955	2,377	3,992	3,096	3,192
Basic and diluted loss per common share[2], [5]	$ 0.08	$ 0.12	$ 0.11	$ 0.09	$ 0.07	$ 0.14	$ 0.11	$ 0.11
Total assets[3], [6]	43,660	46,294	34,538	38,081	40,519	39,489	29,471	31,221
Total cash[4], [6]	37,687	40,406	28,206	31,975	34,713	33,919	23,806	25,522
Total long-term debt[7]	150	150	150	150	150	150	150	150
Cash dividends declared[8]	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

(1) Revenue is comprised of interest income and income from short term investments.

(2) Included in net loss and net loss per share between March 2006 and April 2004 is a quarterly gain (loss) on sale of investment of $nil, $nil, $nil, $nil, $765, $nil, ($12,817), and ($646) , respectively.

(3) Subsequent to the acquisition of Oncolytics Biotech Inc. by SYNSORB in April 1999, we applied push down accounting. See note 2 to the audited financial statements for 2005.

(4) Included in total cash are cash and cash equivalents plus short-term investments.

(5) Included in net loss and loss per common share between March 2006 and April 2004 are quarterly stock based compensation expenses of $36,833, $38,152, $4,173, $8,404, $13,375, $1,870,596, $48,878, and $734,670, respectively.

(6) We issued nil common shares in 2006 (2005 4,321,252 common shares for cash proceeds of $18,789,596; 2004 4,685,775 common shares for $23,495,961). In addition, 21,459 common shares were issued in September 2004 as partial consideration for the cancellation of a portion of our contingent payments (see note 10 to the audited financial statements for

2005).

(7) The long-term debt recorded represents repayable loans from the Alberta Heritage Foundation.

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

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

As at March 31, 2006, we had cash and cash equivalents (including short-term investments) and working capital positions of $37,686,624 and $36,315,597, respectively compared to $40,406,167 and $39,301,444, respectively for December 31, 2005. The decrease in 2006 reflects cash usage from operating activities and purchases of intellectual property of $2,461,213 and $230,948, respectively with no cash inflows from financing activities.

We desire to maintain adequate cash and short-term investment reserves to support our planned activities which include our clinical trial program, product manufacturing, administrative costs, and our intellectual property expansion and protection. For the remainder of 2006, we are expecting to expand our clinical trial program to include additional co-therapy clinical trials and Phase II clinical trials. We are also expecting to continue with our collaborative studies pursuing support for our future clinical trial program. Therefore, we will also need to ensure that we have enough REOLYSIN® to supply our potentially expanding clinical trial and collaborative programs. We continue to estimate our expected average monthly cash usage for 2006 to increase to $1,500,000 per month and we believe our existing capital resources are adequate to fund our current plans for research and development activities into 2008. Factors that will affect our anticipated average monthly burn rate include, but are not limited to, the number of manufacturing runs required to supply our clinical trial program and the cost of each run, the number of clinical trials ultimately approved, the timing of patient enrollment in the approved clinical trials, the actual costs incurred to support each clinical trial, the number of treatments each patient will receive, the timing of the NCI s R&D activity, and the level of pre-clinical activity undertaken.

In the event that we choose to seek additional capital, we will look to fund additional capital requirements primarily through the issue of additional equity. We recognize the challenges and uncertainty inherent in the capital markets and the potential difficulties we might face in raising additional capital. Market prices and market demand for securities in biotechnology companies are volatile and there are no assurances that we will have the ability to raise funds when required.

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Capital Expenditures

We spent $230,948 on intellectual property in the first quarter of 2006 compared to $297,396 in the first quarter of 2005. The change in intellectual property expenditures reflects the timing of filing costs associated with our expanded patent base. As well, we have benefited from a stronger Canadian dollar as our patent costs are typically incurred in U.S. currency. In the first quarter of 2006, two U.S. patents were issued bringing our total patents issued to 15 in the U.S., five in Canada and two in Europe.

Investing Activities

Under our Investment Policy, we are permitted to invest in short-term instruments with a rating no less than R-1 (DBRS) with terms less than two years. We have $31,244,253 invested under this policy and we are currently earning interest at an effective rate of 3.56% (2005 3.22%).

OTHER MD&A REQUIREMENTS

We have 36,236,748 common shares outstanding at April 25, 2006. If all of our warrants and options were exercised we would have 42,656,098 common shares outstanding.

Additional information relating to Oncolytics Biotech Inc. is available on SEDAR at www.sedar.com.

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Oncolytics Biotech Inc.
BALANCE SHEETS
(unaudited)

As at

	March 31, 2006 $	December 31, 2005 $
ASSETS		
Current		
Cash and cash equivalents	**6,442,372**	3,511,357
Short-term investments	**31,244,253**	36,894,810
Accounts receivable	**117,311**	47,390
Prepaid expenses	**527,596**	540,368
	38,331,532	40,993,925
Property and equipment	**178,499**	189,863
Intellectual property	**5,150,046**	5,110,538
	43,660,077	46,294,326
LIABILITIES AND SHAREHOLDERS EQUITY		
Current		
Accounts payable and accrued liabilities	**2,015,935**	1,692,481
Alberta Heritage Foundation loan	**150,000**	150,000
Shareholders equity		
Share capital *[note 2]*		
Authorized: unlimited number of common shares Issued: 36,236,748		
(December 31, 2005 36,236,748)	**84,341,212**	84,341,212
Warrants *[note 2]*	**4,429,932**	4,429,932
Contributed surplus	**6,450,076**	6,413,243
Deficit	**(53,727,078)**	(50,732,542)
	41,494,142	44,451,845
	43,660,077	46,294,326

See accompanying notes

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Oncolytics Biotech Inc.
STATEMENTS OF LOSS AND DEFICIT
(unaudited)

For the three month periods ended March 31,

	2006 $	2005 $	Cumulative from inception on April 2, 1998 to March 31, 2006 $
Revenue			
Rights revenue	¾	¾	310,000
Interest income	**292,222**	244,658	3,861,418
	292,222	244,658	4,171,418
Expenses			
Research and development	**1,916,322**	1,630,264	34,751,827
Operating	**1,117,936**	756,316	14,208,627
Stock based compensation *[note 2]*	**36,833**	13,375	3,798,932
Foreign exchange loss (gain)	**(10,051)**	16,566	603,527
Amortization intellectual property	**210,440**	188,782	3,373,231
Amortization property and equipment	**15,278**	17,169	370,324
	3,286,758	2,622,472	57,106,468
Loss before the following:	**2,994,536**	2,377,814	52,935,050
Gain on sale of BCY LifeSciences Inc.	¾	(765)	(299,403)
Loss on sale of Transition Therapeutics Inc.	¾	¾	2,156,685
Loss before taxes	**2,994,536**	2,377,049	54,792,332
Capital tax	¾	¾	49,746
Future income tax recovery	¾	¾	(1,115,000)
Net loss for the period	**2,994,536**	2,377,049	53,727,078
Deficit, beginning of period	**50,732,542**	37,950,711	¾

Deficit, end of period	**53,727,078**	40,327,760	53,727,078
Basic and diluted loss per share	**(0.08)**	(0.07)	
Weighted average number of shares (basic and diluted)	**36,236,748**	32,267,528	

See accompanying notes

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Oncolytics Biotech Inc.
STATEMENTS OF CASH FLOWS
(unaudited)

For the three month periods ended March 31,

	2006 $	2005 $	Cumulative from inception on April 2, 1998 to March 31, 2006 $
OPERATING ACTIVITIES			
Net loss for the period	**(2,994,536)**	(2,377,049)	(53,727,078)
Deduct non-cash items			
Amortization intellectual property	**210,440**	188,782	3,373,231
Amortization property and equipment	**15,278**	17,169	370,324
Stock based compensation	**36,833**	13,375	3,798,932
Other non-cash items *[note 3]*	¾	29,714	1,383,537
Net changes in non-cash working capital *[note 3]*	**270,772**	166,445	1,363,771
	(2,461,213)	(1,961,564)	(43,437,283)
INVESTING ACTIVITIES			
Purchase of intellectual property	**(230,948)**	(297,396)	(4,887,618)
Purchase of property and equipment	**(27,381)**	(5,598)	(614,892)
Purchase of short-term investments	**(249,443)**	(5,207,879)	(47,333,483)
Redemption of short-term investments	**5,900,000**	443,745	15,670,746
Investment in BCY LifeSciences Inc.	¾	7,965	464,602
Investment in Transition Therapeutics Inc.	¾	¾	2,532,343
	5,392,228	(5,059,163)	(34,168,302)
FINANCING ACTIVITIES			
Alberta Heritage Foundation loan	¾	¾	150,000
Proceeds from exercise of warrants and stock options	¾	3,075,887	14,967,068
Proceeds from private placements	¾	¾	38,137,385
Proceeds from public offerings	¾	¾	30,793,504
	¾	3,075,887	84,047,957
Increase (decrease) in cash and cash equivalents during the period	**2,931,015**	(3,944,840)	6,442,372
Cash and cash equivalents, beginning of the period	**3,511,357**	12,408,516	¾

Cash and cash equivalents, end of the period	**6,442,372**	8,463,676	6,442,372

See accompanying notes

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Oncolytics Biotech Inc.
NOTES TO FINANCIAL STATEMENTS

March 31, 2006 *(unaudited)*

1. ACCOUNTING POLICIES

These unaudited interim financial statements do not include all of the disclosures included in the Company s annual financial statements. Accordingly, these unaudited interim financial statements should be read in conjunction with the Company s most recent annual financial statements. The information as at and for the year ended December 31, 2005 has been derived from the Company s audited financial statements.

The accounting policies used in the preparation of these unaudited interim financial statements conform with those used in the Company s most recent annual financial statements.

2. SHARE CAPITAL

Authorized:

Unlimited number of common shares

Issued:	**Shares Number**	**Amount $**	**Warrants Number**	**Amount $**
Balance, December 31, 2004	31,915,496	66,643,325	2,855,340	3,347,630
Issued for cash pursuant to December 29, 2005 private placement	3,200,000	14,176,000	1,920,000	2,908,800
Exercise of warrants	771,252	3,417,271	(771,252)	(329,984)
Expired warrants		1,496,514	(1,219,288)	(1,496,514)
Exercise of options	350,000	297,500		
Share issue costs		(1,689,398)		
Balance, December 31, 2005 and March 31, 2006	**36,236,748**	**84,341,212**	**2,784,800**	**4,429,932**

The following table summarizes the Company s outstanding warrants as at March 31, 2006:

Exercise Price	**Outstanding, Beginning of the Period**	**Granted During the Period**	**Exercised During the Period**	**Expired During the Period**	**Outstanding, End of Period**	**Weighted Average Remaining Contractual Life (years)**
$5.65	320,000				320,000	2.75
$6.15	1,600,000				1,600,000	2.75
$7.06	112,800				112,800	0.15
$8.00	752,000				752,000	1.65
	2,784,800				2,784,800	2.35

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Oncolytics Biotech Inc.
NOTES TO FINANCIAL STATEMENTS

March 31, 2006 *(unaudited)*

Stock Based Compensation

As the Company is following the fair value based method of accounting for stock options, the Company recorded compensation expense of $36,833 (March 31, 2005 $13,375) for the period with respect to the vesting of options issued in prior periods with an offsetting credit to contributed surplus.

3. ADDITIONAL CASH FLOW DISCLOSURE

Net Change In Non-Cash Working Capital

For the three month period ending March 31,

	2006 $	**2005 $**	**Cumulative from inception on April 2, 1998 to March 31, 2006 $**
Change in:			
Accounts receivable	**(69,921)**	7,183	(117,311)
Prepaid expenses	**12,772**	(165,762)	(527,596)
Accounts payable and accrued liabilities	**323,454**	318,027	2,015,935
Change in non-cash working capital	**266,305**	159,448	1,371,028
Net change associated with investing activities	**4,467**	6,997	(7,317)
Net change associated with operating activities	**270,772**	166,445	1,363,771

Other Non-Cash Items

	2006 $	**2005 $**	**Cumulative from inception on April 2, 1998 to March 31, 2006 $**
Foreign exchange loss		30,479	425,186
Donation of medical equipment			66,069
Loss on sale of Transition Therapeutics Inc.			2,156,685
Gain on sale of BCY LifeSciences Inc.		(765)	(299,403)
Cancellation of contingent payment obligation settled in common shares			150,000
Future income tax recovery			(1,115,000)
		29,714	1,383,537

4. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current period s presentation.

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About Oncolytics Biotech Inc.

Oncolytics is a Calgary-based biotechnology company focused on the development of oncolytic viruses as potential cancer therapeutics. Oncolytics clinical program includes a variety of Phase I and Phase I/II human trials using REOLYSIN®, its proprietary formulation of the human reovirus, alone and in combination with radiation. For further information about Oncolytics please visit www.oncolyticsbiotech.com

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