

## **PROMETIC LIFE SCIENCES INC.**

### **Investor Update** April to June 2002

This present release must be considered as the quarterly report to shareholders.

1. Letter to Shareholders dated August 28, 2002.
2. Management Discussion and Analysis of the Financial Position and Operating Results
3. Consolidated Balance Sheets.
4. Consolidated Statements of Operations and Deficit.
5. Consolidated Statements of Cash Flows.
6. Notes to consolidated financial statements.

August 28, 2002



**PROMETIC**  
LIFE SCIENCES INC.

### ***Letter to our Shareholders***

Dear Shareholder:

For many reasons, 2002 continues to be an exciting year for ProMetic, and we are pleased to report on the progress and accomplishments made during the second quarter. Our endeavours have enhanced the company's strategic position in biopharmaceutical manufacturing, expanding the use of our proprietary technologies in therapeutic drug development and diagnostics, while strengthening the Company's financial situation.

In April, ProMetic announced the formation of a joint venture company with the American Red Cross, dedicated to developing diagnostic and removal systems for pathogens that may cause Transmissible Spongiform Encephalopathies (TSEs) and certain viruses. The commercial products developed by the joint venture target blood and blood components as well as biopharmaceutical, food, cosmetic and personal care products. We are pleased to report that progress for this initiative is on schedule.

Recent deaths attributed to variant Creutzfeldt-Jakob Disease (vCJD) in Europe, Japan, Poland and Canada drive home the rapid need to address this health issue. The BBC News recently reported of tests indicating the possible transmission of TSEs by blood transfusion, further supporting findings ProMetic announced previously.

Several of our strategic collaborations have reached significant milestones during the quarter. ProMetic's alliance with Merck KGaA for monoclonal antibody purification met its first phase milestone, demonstrating purification results that exceeded expectations. With this achievement, Merck is accelerating its marketing efforts in Europe and the US. Our integrated system, which promises to be more effective and efficient, has already attracted the interest of several major monoclonal antibody producers. Additionally, Menarini Biotech, a prominent company in Italy, met an important milestone by successfully scaling up their purification process for Amediplase, a new drug entering phase III clinical trials for the treatment of acute myocardial infarction.

Looking forward, both short and long term, the Company is positioned to move its business plan forward after successfully raising money in the capital markets. ProMetic secured \$28.6 million, largely from institutional investors, who continue to have confidence in our ability to build superior shareholder value from our extensive product pipeline. The cash reserves generated in this financing will allow us to focus explicitly on the research, development and advancement of our products and technologies.

In closing, I am extremely proud of the accomplishments demonstrated by our management team and its ability to identify high value commercial applications that target unmet manufacturing and medical needs. These achievements also illustrate the Company's ability to deliver on its expected milestones, and in some cases, exceed them. Most importantly, our second quarter milestones validate our two-tiered business model, whereby our bioseparation unit creates value and visibility for the Company, supporting our steady progress towards developing therapeutics for inflammatory and oncology indications.

## Financial Highlights

2001	2 <sup>nd</sup> quarter ended June 30 2002	2 <sup>nd</sup> quarter ended June 30
	<u>(\$ in millions)</u>	<u>(\$ in millions)</u>
Cash & Cash equivalents	28.6	1.2
Shareholders' equity	40.9	10.2
Revenues	0.9	0.4
R & D expenses	2.6	0.9
Net loss before R&D expenses	(1.1)	(0.8)
Loss per share before R & D expenses	(\$0.01)	(\$0.01)
Loss per share	(\$0.05)	(\$0.04)

## **PROMETIC LIFE SCIENCES INC.**

### **MANAGEMENT DISCUSSION AND ANALYSIS OF THE FINANCIAL POSITION AND OPERATING RESULTS**

#### **Second quarter results**

Revenues for the quarter came in at \$924,879 as against \$446,752 in the second quarter of 2001. Current level of income base trends should not be established from quarter-to-quarter variations although the Company expects revenues for the ongoing financial period to be slightly in excess of those recorded in 2001.

The net loss for the quarter ended June 30, 2002 was \$3,673,063, or \$0.05 per share, compared with \$2,158,067, or \$0.04 per share, for the second quarter of 2001. This difference is due mainly to supplementary investments in our R&D programs, in our business development activities and in indirect expenditures stemming from financing in the amount of some \$28.6M finalized during the quarter.

Development expenses increased to \$2,561,689 during the quarter, as against \$1,402,027 for the quarter ended June 30, 2001, corresponding to an increase of \$1,159,662. The increase is due to work on the final preparation of the pre-clinical phases of two of our major compounds: rAAT (alpha-1-antitrypsin recombined in genetically modified yeast cells) for dermatological application should begin its clinical trials during the third quarter of 2002, while PBI-1402 cancer treatment should start the clinical trial phase at the end of 2002.

Total expenses before research and development, depreciation of capital assets and financial expenses came to \$1,843,487 for the quarter ended June 30, 2002, compared with \$1,038,987 for the same quarter in 2001. This is mainly attributable to the Company's growing investments in international corporate and business development and to certain non-recurrent expenditures related to the \$28.6M financing agreements concluded during the quarter.

Referring to last quarter's results, Mr. André Bédard, Executive Vice-President and Chief Financial Officer of ProMetic stated: "The quarter's losses relate to two items: the major R&D investments implemented in order to allow two of our major compounds to move forward into the clinical trials phase during the coming quarters, and the finalization of financing agreements of some \$28.6M. The fact that the Company now has a strong capital base will contribute very significantly to facilitating the planning of its strategic growth and allow it to take the steps necessary to bring the full range of its current projects to a successful conclusion within the scheduled time frame."

#### **Cash flows**

During the quarter ended June 30, 2002, cash flows from financing activities were mainly attributable to the gross product of private and public financings of some \$28.6M and share issue expenses of \$2.5M. Cash flows from investment activities amounted to \$1,558,412, compared with \$812,335 for the corresponding period in the previous year. The difference is attributable to the acquisition of capital assets and intellectual property, the sum of [\$1,035,934] covering amongst other items, the acquisition of a patent and of pre-clinical data relating to three compounds in the areas of cancer, inflammatory and infectious diseases, at a cost of \$400,000, and a favourable variance of \$219,857 relative to deferred development expenses.

#### **Six-month period ended June 30, 2002**

Revenues for the six-month period ended June 30, 2002 amounted to \$1,178,631, compared with \$824,245 for the same period of the previous year. Revenues are expected to gradually increase over the upcoming quarters.

Overall expenses before research and development, depreciation of capital costs and of intellectual property, together with financial expenses, came to \$2,888,079 for the six-month period ended June 30, 2002, as against \$1,871,859 for the same period in 2001. R&D expenses rose to \$4,654,719 during the first six months of 2002, compared with \$2,525,233 for the same period in 2001. The reasons for these differences are the same as those indicated in the section Second quarter results above, plus a variance of about \$700,000 due to the development of the therapeutic sector and the expansion of the Montreal therapeutic team in anticipation of future clinical trials and of the stronger focus on the new drugs research program.

The net loss for the half-year ended June 30, 2002 amounted to \$6,740,758, or \$0.10 per share, compared with \$3,829,979, or \$0.06 per share for the second half-year of 2001.

### **About ProMetic**

ProMetic Life Sciences Inc. is a biopharmaceutical company headquartered in Montreal. Through its facilities in UK, the Isle of Man (G.B.), Canada and USA, ProMetic is active in research, development, manufacturing and marketing of a range of commercial applications based on its proprietary enabling technology used in therapeutics for large-scale purification of drugs, chemical genomics and proteomics, and for drug research and development. Additional information is available on the company's web site: [www.prometic.com](http://www.prometic.com).

*This press release contains forward-looking statements that involve risks and uncertainties, including, but not limited to, successful clinical development, approval by regulatory bodies, the Company's ability to develop, manufacture, and successfully market value-added pharmaceutical products and to obtain contracts for its products and services. Shareholders are therefore cautioned that these statements are predictions and these actual events or results may differ materially from those anticipated in these forward-looking statements.*

**PROMETIC LIFE SCIENCES INC.****CONSOLIDATED BALANCE SHEETS**

	<b>June 30</b>	<b>December 31</b>
	<b>2002</b>	<b>2001</b>
	<b>(unaudited)</b>	<b>(audited)</b>
<b>ASSETS</b>		
Current assets :		
Cash and cash equivalents	\$ 28,650,003	\$ 2,606,798
Accounts and other receivables (Note 3)	2,307,323	924,159
Subscriptions receivable	-	9,150,000
Inventories	421,587	292,333
Prepaid expenses	321,901	228,093
	<b>\$ 31,700,814</b>	<b>\$ 13,201,383</b>
Investment (Note 4)	2,285,435	2,281,245
Capital assets	2,984,949	1,973,001
Intellectual property (Note 5)	4,175,790	3,272,535
Deferred development costs	3,466,930	3,583,831
	<b>\$ 44,613,918</b>	<b>\$ 24,311,995</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,280,461	\$ 3,271,521
Current portion of obligations from capital lease contract	136,629	
	<b>3,147,090</b>	<b>3,271,521</b>
Capital lease obligations (note 6)	250,486	-
Shareholders' equity:		
Share capital (note 7)	111,989,790	83,500,266
Deficit	(71,043,448)	(62,459,792)
	<b>40,946,342</b>	<b>21,040,474</b>
Commitment (note 8)	<b>\$ 44,613,918</b>	<b>\$ 24,311,995</b>

PROMETIC LIFE SCIENCES INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT  
(unaudited)

	Three-month period ended		Six-month periods ended	
	June 30		June 30	
	2002	2001	2002	2001
Revenues	\$ 924,879	\$ 446,752	\$ 1,178,631	\$ 824,245
Cost of sales and expenses other than the undernoted items	1,843,487	1,038,987	2,888,079	1,871,859
Research and development expenses	2,561,689	1,402,027	4,654,719	2,525,233
Depreciation of capital assets	151,255	111,438	269,639	223,112
Amortization of intellectual property	80,217	45,635	156,327	83,616
Net financial expenses (revenues)	(38,706)	6,732	(49,375)	(49,596)
Net loss	3,673,063	2,158,067	6,740,758	3,829,979
Deficit, beginning of the period	65,748,469	53,769,368	62,459,792	52,097,456
Share issue expenses	1,621,916	66,855	1,842,898	66,855
Deficit, end of period	\$71,043,448	\$55,994,290	\$71,043,448	\$ 55,994,290
Net loss per share	0.05	0.04	0.10	0.06
Weighted average number of outstanding shares (in thousands)	73,913	60,675	71,715	61,064

**PROMETIC LIFE SCIENCES INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
(unaudited)**

	<b>Three-month periods ended June 30</b>		<b>Six-month periods ended June 30</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
<b>Cash flows from operating activities:</b>				
Net loss	\$(3,673,063)	\$(2,158,067)	\$(6,740,758)	\$ (3,829,979)
Adjustments to reline net loss to cash flows used by operating activities :				
Depreciation of capital assets	151,255	111,438	269,639	223,112
Amortization of intellectual property	80,217	45,635	156,327	83,616
Amortization of deferred development costs	58,280	6,117	116,901	11,740
	<u>(3,383,311)</u>	<u>(1,994,877)</u>	<u>(6,197,891)</u>	<u>(3,511,511)</u>
Net change in non-cash operating working capital items	337,135	(50,810)	392,589	(200,144)
	<u>(3,046,176)</u>	<u>(2,045,687)</u>	<u>(5,805,302)</u>	<u>(3,711,655)</u>
<b>Cash flows from financing activities :</b>				
Proceeds from share issues	28,589,732	1,760,000	37,639,524	1,760,000
Share issue expenses	(2,457,996)	(66,855)	(2,779,978)	(66,855)
Increase (repayment) of long-term debt	(22,771)	(26,129)	(22,771)	(49,326)
	<u>26,108,965</u>	<u>1,667,016</u>	<u>34,836,775</u>	<u>1,643,819</u>
<b>Cash flows from investing activities :</b>				
Advance to an executive	70,000	-	(380,000)	-
Disposal of short-term investments				2,000,000
Acquisition of an investment			(4,190)	-
Additions to capital assets	(930,842)	(251,468)	(1,544,496)	(365,365)
Additions to intellectual property	(697,570)	(341,010)	(1,059,582)	(341,010)
Deferred development costs	-	(219,857)	-	(294,242)
	<u>(1,558,412)</u>	<u>(812,335)</u>	<u>(2,988,268)</u>	<u>999,383</u>
Increase in cash and cash equivalents	21,504,377	(1,191,006)	26,043,205	(1,068,453)
Cash and cash equivalents, beginning of period	7,145,626	2,392,869	2,606,798	2,270,316
Cash and cash equivalents, end of period	<u>28,650,003</u>	<u>1,201,863</u>	<u>28,650,003</u>	<u>1,201,863</u>
<b>Other information related to cash flows:</b>				
Interests paid during the period	726	1,823	2,000	5,237
Interests received during the period	\$ 25,096	\$ 86,844	\$ 35,249	\$ 120,272

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

ProMetic is a leading biopharmaceutical company engaged in the research, development, manufacturing and commercialisation of a variety of commercial applications from its platform technology. ProMetic owns proprietary enabling technology essential for use in large-scale drug purification proteomics, medical applications and therapeutics.

### 1- Basis of presentation:

The unaudited consolidated balance sheet as of June 30, 2002 and the related unaudited consolidated statements of operations and deficit and cash flows for the six month periods ended June 30, 2002 and 2001, have been prepared using accounting principles and practices consistent with those used and described in the annual financial statements, but do not include all disclosures required by generally accepted accounting principles. Accordingly, they should be read in conjunction with the Company's audited consolidated financial statements and notes thereto as of and for the year ended December 31, 2001 included in the Company's annual report to shareholders.

### 2- Change in Accounting Policy

Effective January 1, 2002, the Company adopted the new Recommendations of Canadian Institute of Chartered Accountants with respect to the accounting for stock-based compensation and other stock-based payments. The new Recommendations are applied prospectively to all stock-based payments to non-employees, and to employee awards that are direct awards of stock, call for settlement in cash or other assets, or are stock appreciation rights that call for settlement by the issuance of equity instruments, granted on or after January 1, 2002.

The Company accounts for all stock-based payments to non-employees, and employee awards that are direct awards of stock, call for settlement in cash or other assets, or are stock appreciation rights that call for settlement by the issuance of equity instruments, granted on or after January 1, 2002, using the fair value based method. No compensation cost is recorded for all other stock-based employee compensation awards. Consideration paid by employees on the exercise of stock options is recorded as share capital.

### 3- Accounts and other receivables

	As of June 30	As of December 31
	<u>2002</u>	<u>2001</u>
Trade	1,099,647	414,965
Sales tax receivable	197,862	150,060
Research tax credits receivable	177,510	177,510
Advance to an executive	450,000*	70,000
Other	382,303	111,624
	<u>\$ 2,307,323</u>	<u>\$ 924,159</u>

\*Loan granted for the exercise of options for acquiring ProMetic shares.

#### 4- Investment

On April 8, 2002, ProMetic announced the formation of a new joint venture company (JV) with the American Red Cross, which is named Pathogen Removal and Diagnostic Technologies Inc (PRDT) dedicated to researching, developing and commercializing diagnostic and removal systems for pathogens that may cause Transmissible Spongiform Encephalopathies (TSEs) and certain viruses.

Under the terms of the JV agreement, ProMetic and the American Red Cross will each contribute intellectual property and technical expertise to develop diagnostic and removal systems. Specifically, the JV will utilize ProMetic's proprietary Mimetic Ligand™ technology in combination with the American Red Cross' expertise in diagnostics and pathogen removal systems in blood and blood components. The JV will also investigate developing other commercial applications for detecting and removing TSEs for industries such as biopharmaceuticals, food, cosmetics and personal care. This JV, of which ProMetic owns 26% (the cost of this placement is \$4,190), started its operations in the second quarter of 2002.

Pursuant to the terms of the agreement and as part of its ongoing R&D budget, ProMetic included an allocation of US\$ 2.3 Million over the next two years to be contributed in cash, services and in kind to PRDT. Any such contribution will be compensated by means of issuance of Preferred Shares to ProMetic bearing interest at 14% per annum.

#### 5 - Intellectual Property

On June 6, 2002, the Company acquired for \$400,000, patents and pre-clinical data pertaining to three therapeutic compounds in the field of applications of oncology, inflammation and infectious diseases. Further payments are to be paid if positive results are achieved at completion of main product development phases.

#### 6 - Capital Lease Obligations

The Company rents laboratory equipments as per capital lease contract. Obligations are reimbursed by monthly payments of \$11,386, bearing no interest and maturing in April 2005.

#### 7 - Share Issuance

Changes in the issued and outstanding subordinate voting shares were as follows:

	<u>Number</u>	<u>Amount (\$)</u>
Balance as at December 31, 2001	54,056,402	79,908,876
Shares issued pursuant to:		
Private Placements	5,619,370	11,831,334
Public Offering	9,340,000	25,218,000
Exercise of warrants and options	558,500	590,192
Conversion of shares	107,856	-
Balance as at June 30, 2002	69,682,128	108,548,402
Other categories of shares		3,441,388
Share capital as of June 30 2002		111,989,790

## 8 - Commitment

As part of the Company's Intellectual Property Management Systems, one executive and some senior level managers are entitled to an on-going royalty on the sales of certain products from opportunities brought to ProMetic by employees generally prior to them joining the Company, at a rate varying between 0.1% to 0.5% of net sales or 1% to 3% of revenues collected by the Company. They also hold an exclusive right to exploit these projects should the Company does not pursue their developments and/or not commercialize them or one of them for any reason.

## 9 - Stock-Based Plan

During the quarter, 28,000 options were granted to employees of the Company, under its "stock option plan", with an exercise price of \$2.70.

The Company applies the settlement method of accounting for stock options granted to employees. Had the compensation cost for the Company's "stock option plan" been determined based on the fair value at the grant date, the Company's net earnings would have been adjusted to the pro-forma amounts indicated below for the period ended April 30, 2002.

	2002 (2 <sup>nd</sup> Quarter)	2002 (6 months)
Net loss as reported	3,673,063	6,740,758
Pro-forma compensation expense	<u>2,597</u>	<u>2,597</u>
Pro-forma net loss	<u>3,675,660</u>	<u>6,743,355</u>
Pro-forma net loss per share	<u>\$0.05</u>	<u>\$0.10</u>

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option price model with the following assumptions:

Risk-free interest rate:	4.74%
Divided yield	0%
Expected volatility of share market price	87.11%
Expected Life	5 years

## 10- Segmented information

Revenues by geographic segment are as follows:

	2002 (2 <sup>nd</sup> Quarter)	2001 (2 <sup>nd</sup> Quarter)	2002 (6 months)	2001 (6 months)
United States	\$ 110,926	\$ 289,737	\$ 197,927	\$ 520,176
United Kingdom	465,725	12,200	566,221	169,553
Europe (excluding United Kingdom)	332,538	-	388,637	59,422
Other	15,690	7,749	25,846	46,028
Canada	-	29,066	-	29,066
	<u>\$ 924,879</u>	<u>\$ 446,752</u>	<u>\$ 1,178,631</u>	<u>\$ 824,245</u>

Net losses by geographic segment are as follows:

	2002	2001	2002	2001
	(2 <sup>nd</sup> Quarter)	(2 <sup>nd</sup> Quarter)	(6 months)	(6 months)
Canada	\$ 2,449,899	\$ 2,041,521	\$ 4,318,807	\$ 2,705,490
United States	457,284	77,365	905,455	576,093
United Kingdom	765,880	39,181	1,516,496	548,396
	\$3 ,673,063	\$ 2,158,067	\$ 6,470,758	\$ 3,829,979

Assets by geographic segment are as follows:

	As of June 30	As of December 31
	<u>2002</u>	<u>2001</u>
Canada	\$ 36,755,032	\$ 17,695,636
United States	628,015	664,872
United Kingdom	7,230,871	5,951,487
	\$ 44,613,918	\$ 24,311,995

Capital assets and intellectual property by geographic segment are as follows:

	As of June 30	As of December 31
	<u>2002</u>	<u>2001</u>
Canada	\$ 4,180,413	\$ 2,800,958
United States	23,129	22,460
United Kingdom	2,957,197	2,422,118
	\$ 7,160,739	\$ 5,245,536

Capital and intellectual property expenditures by geographic segment are as follows:

	2002	2001	2002	2001
	(2 <sup>nd</sup> Quarter)	(2 <sup>nd</sup> Quarter)	(6 months)	(6 months)
Canada	\$798,500	\$ 560,266	\$ 1,500,233	\$ 580,935
United States	4,032	6,990	4,032	6,990
United Kingdom	562,971	25,222	836,904	118,450
	\$ 1,365,503	\$ 592,478	\$ 2,341,169	\$ 706,375

#### 11 - Comparative figures

Comparative figures have been reclassified in order to conform with the current period's presentation.