

2003 / Q2 Report



PROMETIC



*Enabling a world
Of better health*

PROMETIC LIFE SCIENCES INC.

Investor Update

Six-month period ended June 30, 2003

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

1. Consolidated Balance Sheets
2. Consolidated Statements of Operations and Deficit
3. Consolidated Statements of Cash Flows
4. Notes to Consolidated Financial Statements

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

	June 30	December 31,
	2003	2002
	(unaudited)	(audited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 13,624,561	\$ 13,390,259
Short-term investments	1,175,677	9,508,610
Accounts receivable (Note 3)	957,764	1,741,001
Inventories	479,297	527,508
Prepaid expenses	584,927	686,188
	<u>16,822,226</u>	<u>25,853,566</u>
Investments and interest in a joint venture (Note 4)	3,113,121	2,663,603
Capital assets	3,617,857	3,381,220
Intellectual property	4,616,296	4,349,822
Deferred development costs	2,788,187	3,209,004
	<u>\$ 30,957,687</u>	<u>\$ 39,457,215</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 4,040,122	\$ 4,200,622
Current portion of long-term debt	406,098	150,034
	<u>4,446,220</u>	<u>4,350,656</u>
Long-term debt (Note 5)	866,998	200,046
Preferred shares, retractable at the holder's option	656,346	382,358
Shareholders' equity:		
Share capital (Note 6)	112,944,390	112,919,390
Deficit	(87,956,267)	(78,395,235)
	<u>24,988,123</u>	<u>34,524,155</u>
	<u>\$ 30,957,687</u>	<u>\$ 39,457,215</u>

PROMETIC LIFE SCIENCES INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

Six-month periods and quarters ended June 30

(unaudited)

	Quarters Ended		Six-month periods ended	
	June 30		June 30	
	2003	2002	2003	2002
Revenues	\$ 302,257	\$ 924,879	\$ 603,187	\$ 1,178,631
Administration, marketing and other expenses excluding the undernoted items	1,730,829	1,843,487	3,063,237	2,888,079
Research and development expenses	3,460,965	2,561,689	6,196,964	4,654,719
Depreciation of capital assets	244,750	151,255	486,453	269,639
Amortization of intellectual property and deferred development cost	309,484	80,217	624,123	156,327
	5,746,028	4,636,648	10,370,777	7,968,764
Net interest income	83,395	38,706	206,558	49,375
Net loss	5,360,376	3,673,063	9,561,032	6,740,758
Deficit, beginning of the period	82,595,891	65,748,469	78,395,235	62,459,792
Share issue expenses	-	1,621,916	-	1,842,898
Deficit, end of period	\$ 87,956,267	\$ 71,043,448	\$ 87,956,267	\$ 71,043,448
Net loss per share	0.06	0.05	\$ 0.11	\$ 0.10
Weighted average number of outstanding shares (in thousands)	87,268	73,913	86,109	71,715

PROMETIC LIFE SCIENCES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Six-month periods and quarters ended June 30

(unaudited)

	Quarters ended		Six-month periods ended	
	June 30		June 30	
	2003	2002	2003	2002
Cash flows from (used in) operating activities:				
Net loss	\$ (5,360,376)	\$ (3,673,063)	\$ (9,561,032)	\$ (6,740,758)
Adjustments to reconcile net loss to cash flows used in operating activities:				
Depreciation of capital assets	244,750	151,255	486,453	269,639
Amortization of deferred development costs	204,397	58,280	420,817	116,901
Amortization of intellectual property	105,087	80,217	203,306	156,327
	(4,806,142)	(3,383,311)	(8,450,456)	(6,197,891)
Net change in operating assets and liabilities	972,304	337,135	1,454,253	392,589
	(3,833,838)	(3,046,176)	(6,996,203)	(5,805,302)
Cash flows from (used in) financing activities:				
Proceeds from share issues	10,000	28,659,732	25,000	37,259,524
Share issue expenses	-	(2,457,996)	-	(2,779,978)
Increase in long-term debt	268,404		1,095,029	-
Repayment of long-term debt	(75,184)	(22,771)	(172,013)	(22,771)
	203,220	26,178,965	948,016	34,456,775
Cash flows from (used in) investing activities:				
Disposal (acquisition) of short-term investments	(382,309)		8,332,933	-
Acquisition of an investment			(175,530)	(4,190)
Additions to capital assets	(621,360)	(930,842)	(1,293,037)	(1,544,496)
Additions to Intellectual property	(240,565)	(697,570)	(581,877)	(1,059,582)
	(1,244,234)	(1,628,412)	6,282,489	(2,608,268)
Net increase in cash and cash equivalents	(4,874,852)	21,504,377	234,302	26,043,205
Cash and cash equivalents, beginning of period	18,499,413	7,145,626	13,390,259	2,606,798
Cash and cash equivalents, end of period	\$ 13,624,561	\$ 28,650,003	\$ 13,624,561	\$ 28,650,003
Other cash flow information:				
Interests paid	\$ 13,475	\$ 726	\$ 18,802	\$ 2,000
Interests earned	171,527	25,096	304,703	35,249
Non-cash transactions:				
Unpaid additions to capital asset and intellectual property	-	-	361,309	-
Excess of the interest in the joint venture Pathogen Removal and Diagnostic Technologies Inc., over the proportionate share in the consolidated net assets	151,588	-	273,988	-
Preferred shares retractable at the holder's option	151,588	-	273,988	-
Unpaid share issue expenses	-	-	-	55,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ProMetic Life Sciences (the “Company” or “ProMetic”) is an international biopharmaceutical company engaged in the research, development, manufacturing and marketing of a variety of applications developed from its own exclusive technology platform. ProMetic owns proprietary technology essential for use in the large-scale purification of drugs, genomics and proteomics products and for medical and therapeutic applications.

1- Basis of Presentation

The unaudited consolidated balance sheet as of June 30, 2003 and the related unaudited consolidated statements of operations and deficit, and cash flows, for the six-month periods ended June 30, 2003 and 2002, 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, 2002 included in the Company’s annual report to shareholders. Information as at June 30, 2003 and for the six-month periods ended June 30, 2003 and 2002 are unaudited.

2- New Accounting Standard

In February 2003, the Canadian Institute of Chartered Accountants issued Accounting Guideline 14 («AcG-14»), Disclosure of Guarantees, which requires that certain disclosures be made by a guarantor about its obligations under guarantees in its interim and annual consolidated financial statements for periods beginning on or after January 1, 2003.

A guarantee is a contract or an indemnification agreement that contingently requires the Company to make payments to the other party of the contract or agreement, based on changes in an underlying that is related to an asset, a liability or an equity security of the other party or based on a third party failure to perform under an obligating agreement. It could be also an indirect guarantee of the indebtedness of another party, even though the payment to the other party may not be based on changes in an underlying that is related to an asset, a liability or an equity security of the other party.

The Company did not enter into agreements containing features that meet the AcG-14 criteria for a guarantee.

3- Accounts receivable

	June 30, 2003	December 31, 2002
Trade	\$155,921	\$ 754,387
Sales taxes receivable	260,994	337,982
Government grants and tax credits receivable	24,924	37,771
Advance to officers	450,000	480,000
Other	65,925	130,861
	\$957,764	\$ 1,741,001

4- Investments and interest in a joint venture

	June 31, 2003	December 31, 2002
Investments:		
Investment in convertible preferred shares of Arriva Pharmaceuticals, Inc.	\$2,281,245	\$2,281,245
Investment in convertible preferred shares of AM-Pharma Holding B.V.	175,530	-
Interest in a joint venture:		
Excess of the interest in the joint venture Pathogen Removal and Diagnostic Technologies Inc. over proportionate share in consolidated net assets	656,346	382,358
	\$3,113,121	\$ 2,663,603

On March 10, 2003, the Company acquired 110,884 convertible preferred shares at a price of £1.48 per share in the capital of AM-Pharma Holding B.V. a Dutch private biopharmaceutical, the holding company of PhamAAware Sepsis BV to which ProMetic has granted a license on its technology. AM-Pharma is focused on the development of novel pharmaceutical compounds derived from the innate human immune system. The resulting products are intended for the treatment of patients suffering from a variety of serious infectious diseases. This investment respects ProMetic's view for certain targeted potential markets, whereby it takes equity interest in its partner's share capital to optimize medium and long-term shareholder value.

5- Long-term debt

ProMetic BioSciences Inc., a subsidiary of the Company, has borrowed \$1,095,029 of the available credit facility. As at June 30, 2003, the loan, guaranteed by the Company, bearing interest at a fixed rate of 9.5%, will be reimbursed with monthly payment of \$30,509 ending December 2006 at the latest.

6- Share capital

a) Share issue:

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

	Number	Amount
Balance as at December 31, 2002	72,743,722	\$110,656,225
Shares issued pursuant to:		
Exercise of options	25,000	25,000
Conversion of preferred shares	1,479,649	700,000
Balance as at June 30, 2003	74,248,371	\$111,381,225

b) Stock options:

During the second quarter of 2003, no options were granted.

The following table summarizes the changes in the number of stock options outstanding:

	Options	Weighted average exercise price per share
Number of options as at December 31, 2002	4,257,402	\$1.49
Granted	285,000	2.70
Exercised	15,000	1.00
Cancelled	155,900	2.69
Number of options as at June 30, 2003	4,361,502	\$1.53

6- Share capital (continued)

c) Stock-based compensation and other stock-based payments:

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 loss would have been adjusted to the pro forma amounts indicated below:

	Quarter ended June 30, 2003	Quarter ended June 30, 2002	Six-month period ended June 30, 2003	Six-month period ended June 30, 2002
Net loss as reported	\$5,360,376	\$3,673,063	\$9,561,032	\$6,740,758
Pro forma compensation expense	12,487	2,597	22,202	2,597
Pro forma net loss	5,372,863	3,675,660	9,583,234	6,743,355
Pro forma net loss per share	\$0.06	\$0.05	\$0.11	\$0.10

The fair value of each option granted, since January 1, 2002, was estimated on the grant date using the Black-Scholes option price model with the following weighted assumptions:

Risk-Free interest rate:	4.44%
Dividend yield	0%
Expected volatility of share market price	100,86%
Expected life	5 years

The estimated unit fair value of options granted since January 1, 2002, is \$ 1,57

d) Earning per share:

The stock options granted in connection with the stock option plan, the warrants and other options were not included in the computation of diluted loss per share because to do so would have been anti-dilutive.

7- Segmented Information

Revenues¹ by geographic segment are as follows:

	Quarters ended June 30,		Six-month periods ended June 30,	
	2003	2002	2003	2002
United States	\$ 70,218	\$ 110,926	\$ 106,037	\$ 197,927
United Kingdom	118,226	465,725	321,595	566,221
Europe (excluding United Kingdom)	105,838	332,538	142,420	388,637
Other countries	7,975	15,690	33,135	25,846
	\$ 302,257	\$ 924,879	\$ 603,187	\$ 1,178,631

Net losses by geographic segment are as follows:

	Quarters ended June 30,		Six-month periods ended June 30,	
	2003	2002	2003	2002
Canada	\$ 3,696,230	\$ 3,015,539	\$ 6,478,101	\$ 4,827,396
United States	367,353	197,759	500,226	645,930
United Kingdom	1,296,793	459,765	2,582,705	1,267,432
	\$ 5,360,376	\$ 3,673,063	\$ 9,561,032	\$ 6,740,758

The assets by geographic segment are as follows:

	June 30		December 31	
	2003	2002	2003	2002
Canada	\$ 24,137,600	\$ 31,460,699		
United States	552,856	712,781		
United Kingdom	6,267,231	7,283,735		
	\$ 30,957,687	\$ 39,457,215		

The capital assets and intellectual property by geographic segment are as follows:

	June 30		December 31	
	2003	2002	2003	2002
Canada	\$ 4,958,488	\$ 4,492,398		
United States	95,425	24,079		
United Kingdom	3,180,240	3,214,565		
	\$ 8,234,153	\$ 7,731,042		

¹ Revenues are attributed to countries based on customer's location.

7- Segmented Information (continued)

Additions to capital and intellectual property by geographic segment are as follows:

	Quarters ended June 30,		Six-month periods ended June 30,	
	2003	2002	2003	2002
Canada	\$ 356,971	\$ 798,500	819,325	\$ 1,500,233
United States	47,004	4,032	74,027	4,032
United Kingdom	58,725	562,971	299,518	836,904
	\$ 462,700	\$ 1,365,503	1,192,870	\$ 2,341,169

8- Comparative Figures

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