



PROMETIC

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QUARTERLY REPORT  
FOR THE PERIOD ENDED MARCH 31, 2005

**WE'RE  
CREATING  
A HEALTHIER  
FUTURE**

# **PROMETIC LIFE SCIENCES INC.**

## **Quarterly Report**

**Three-month period ended March 31, 2005**

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

- 1. Management's Discussion and Analysis of Operating Results and Financial Position**
- 2. Consolidated Balance Sheets**
- 3. Consolidated Statements of Operations**
- 4. Consolidated Statements of Deficit**
- 5. Consolidated Statements of Cash Flows**
- 6. Notes to Consolidated Financial Statements**

## Management's Discussion and Analysis of Operating Results and Financial Position

The following information should be read in conjunction with the Company's audited consolidated financial statements and notes thereto as at and for the year ended December 31, 2004 included in the Company's annual report to shareholders. Information as at March 31, 2005 and for the periods ended March 31, 2005 and 2004 are unaudited.

### RESULTS OF OPERATIONS

*Revenues* for the first quarter of 2005 reached \$5.2 million compared to \$0.5 million in the same period last year. The Company earned a licensing milestone of \$4.0 million confirmed by Hemosol (TSX: HML, NASDAQ: HMSL), a licensee of the Company's Cascade technology. In addition, the Company earned revenues from its PRDT partnership with the American Red Cross through contributions received by PRDT from its strategic partner, MacoPharma. Lastly, the Company's bioseparation revenues from its Mimetic Ligand™ technology sustained its growth pattern.

*Research and development expenses* amounted to \$4.0 million during the first quarter compared to \$3.7 million in the same period in 2004. Advancement in the Company's major R&D programs both in the Therapeutic and Enabling Technology Divisions constitute the principal source of R&D investment of the Company.

*Administration, marketing and other expenses*, excluding amortization, were \$1.6 million for the first quarter of 2005, compared to \$1.4 million for the same period in 2004.

A write-down of *short term investment*, in relation to the market value of Hemosol shares held by the Company was recorded during the first quarter for an amount of \$1.0 million.

*Net loss* for the quarter was \$2.0 million, or \$0.02 per share, compared to \$5.1 million, or \$0.05 per share, for the same quarter in 2004.

*Cash and cash equivalents* amounted to \$1.9 million as at March 31, 2005. Short-term investment totalled \$4.3 million and corresponded to the market value of the Hemosol shares.

*Accounts receivable* amounted to \$4.8 million, including an amount of \$1.1 million from Hemosol resulting from the achievement of a licensing milestone.

As at March 31, 2005, the Company had 86,496,784 subordinate voting shares outstanding (December 31, 2004: 86,486,784) and 3,653,202 options granted under the employee stock option plan (December 31, 2004: 3,615,702).

*Cash flows* used in operating activities totalled \$3.9 million for the quarter ended March 31, 2005, compared to \$4.8 million for the same period in 2004. This improvement is principally due to the Company's revenue increase.

*Cash flows* used in investing activities amounted to \$0.9 million for the quarter ended March 31, 2005 and mostly results from capital assets acquisitions of \$0.6 million for the Company's Isle of Man manufacturing plant's refurbishment project.

## **RISKS AND UNCERTAINTIES**

The information contained in the Management's Discussion and Analysis of Operating Results and Financial Position contains statements regarding future financial and operating results. It also contains forward-looking statements with regards to partnerships, joint ventures and agreements and future opportunities based on these. There are also statements related to the discovery and development of intellectual property as well as other statements about future expectations, goals and plans.

These statements should not be construed as guarantees of future performance and are subject to certain risks and uncertainties beyond ProMetic's control. These risks could cause actual results to differ materially from those expressed or implied in the Management's Discussion and Analysis of Operating Results and Financial Position. Some of the risks include: a change in general economic and/or business conditions; changes in government regulations; adverse results in drug discovery and development and pre-clinical or clinical trials. Other risks include: the ability of our development and marketing partners to deliver on contractual obligations and/or meet milestones; intellectual property issues and the timing and decisions of regulatory bodies such as HPFB<sup>(1)</sup>, FDA<sup>(2)</sup> and EMEA<sup>(3)</sup> as well as changes in the competitive landscape and the continued availability of new capital to finance activities. Finally, there are risks involved in the performance of contractual obligations, the failure to meet major milestones or the failure to realize expected synergies in our major partnerships, or our ability to manage them.

This statement should not be interpreted as a warning vis-à-vis any individual risk but rather as a general disclaimer about forward-looking statements and an identification of some sources of risk.

## **FORWARD-LOOKING STATEMENTS**

The Management's Discussion and Analysis of Operating Results and Financial Position contains "forward-looking statements", in the sense of security and exchange laws, which are based on certain estimates and expectations. The statements, which are not based on historical facts, such as statements related to management's opinions and expectations, are forward-looking statements. These statements are subject to certain risks and uncertainties, and the actual results could differ sensibly to those presented. Management does not commit to revise these forward-looking statements to take into account new information, events to come or other factors.

(1) HPFB : Health Products and Food Branch, Health Canada    (2) FDA : U.S. Food and Drug Administration  
(3) EMEA : European Agency for the Evaluation of Medicinal Products

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

(In thousands of Canadian dollars)

	<b>March 31</b>	December 31
	<b>2005</b>	2004
	<b>(unaudited)</b>	(audited)
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	<b>\$1,873</b>	\$6,770
Short-term investment (note 2)	<b>4,282</b>	2,340
Accounts receivable (note 3)	<b>4,784</b>	2,796
Inventories	<b>878</b>	921
Prepaid expenses	<b>1,088</b>	789
	<b>12,905</b>	13,616
Investments (note 4)	<b>4,813</b>	4,479
Capital assets	<b>5,041</b>	5,190
Licenses and patents	<b>5,307</b>	5,430
Deferred development costs	<b>740</b>	990
	<b>\$28,806</b>	\$29,705
<b>LIABILITIES</b>		
Current liabilities		
Bank loan	<b>\$1,029</b>	\$1,029
Accounts payable and accrued liabilities	<b>6,137</b>	4,999
Provision related to a lawsuit	<b>2,715</b>	2,715
Deferred revenues	<b>166</b>	243
Current portion of long-term debt	<b>427</b>	440
	<b>10,474</b>	9,426
Long-term debt	<b>302</b>	407
Preferred shares, retractable at the holder's option	<b>1,719</b>	1,586
	<b>12,495</b>	11,419
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 5)	<b>135,692</b>	135,682
Contributed surplus	<b>129</b>	99
Deficit	<b>(119,510)</b>	(117,495)
	<b>16,311</b>	18,286
	<b>\$28,806</b>	\$29,705

*The accompanying notes are an integral part of the consolidated financial statements.*

**PROMETIC LIFE SCIENCES INC.****CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands of Canadian dollars except for per share amounts)

(unaudited)

	Quarter ended March 31	
	2005	2004
<b>Revenues</b>		
Sales and contract	\$1,222	\$528
Licensing	4,000	-
	5,222	528
<b>Charges</b>		
Research and development expenses	3,976	3,719
Administration, marketing and other expenses	1,577	1,381
Amortization of capital assets	273	256
Amortization of licenses and patents and deferred development costs	391	382
	6,217	5,738
<b>Loss before the following items</b>	(995)	(5,210)
Write-down of short-term investment (note 2)	(988)	-
Net interest income	(32)	94
<b>Net loss</b>	<b>(\$2,015)</b>	<b>(\$5,116)</b>
<b>Net loss per share</b>	<b>(0.02)</b>	<b>(0.05)</b>
<b>Weighted average number of outstanding shares (in thousands)</b>	<b>99,516</b>	<b>99,204</b>

*The accompanying notes are an integral part of the consolidated financial statements.*

**PROMETIC LIFE SCIENCES INC.**  
**CONSOLIDATED STATEMENTS OF DEFICIT**

(In thousands of Canadian dollars)

(Unaudited)

	Quarter ended	
	March 31	
	2005	2004
<b>Deficit, beginning of the period</b>	<b>\$117,495</b>	\$100,117
Adjustment for change in stock-based compensation	-	44
Deficit, beginning of the period as restated	<b>117,495</b>	100,161
Net Loss	<b>2,015</b>	5,116
Share issue expenses	-	183
<b>Deficit, end of period</b>	<b>\$119,510</b>	\$105,460

*The accompanying notes are an integral part of the consolidated financial statements.*

**PROMETIC LIFE SCIENCES INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands of Canadian dollars)  
(unaudited)

	Quarter ended March 31	
	2004	2003
<b>Cash flows from (used in) operating activities</b>		
Net loss	(\$2,015)	(\$5,116)
Adjustments to reconcile net loss to cash flows used in operating activities		
Revenue paid in shares	(3,000)	-
Stock-based compensation	30	50
Write-down of short-term investment (note 2)	1,058	-
Amortization of capital assets	273	256
Amortization of deferred development costs	250	255
Amortization of licenses and patents	141	127
	<b>(3,263)</b>	<b>(4,428)</b>
Change in working capital items (note 6a)	<b>(662)</b>	<b>(335)</b>
	<b>(3,925)</b>	<b>(4,763)</b>
<b>Cash flows from (used in) financing activities</b>		
Proceeds from share issues	10	3,055
Share issue expenses	-	(406)
Repayment of long-term debt	(118)	(109)
	<b>(108)</b>	<b>2,540</b>
<b>Cash flows from (used in) investing activities</b>		
Disposal (acquisition) of short-term investments	-	(15,534)
Acquisition of an investment	(201)	-
Additions to capital assets	(594)	(542)
Additions to licenses and patents	(69)	(901)
	<b>(864)</b>	<b>(16,977)</b>
Net (decrease) increase in cash and cash equivalents	<b>(4,897)</b>	<b>(19,200)</b>
Cash and cash equivalents, beginning of period	<b>6,770</b>	<b>24,052</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$1,873</b>	<b>\$4,852</b>

*The accompanying notes are an integral part of the consolidated financial statements.*

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*Quarters ended March 31, 2005 and 2004*

*(In thousands of Canadian dollars, except number of shares)*

ProMetic Life Sciences Inc. (“ProMetic” or the “Company”), incorporated under the Canada Business Corporations Act, 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. The Company owns proprietary technology essential for use in the large-scale purification of drugs, genomics and proteomics products as well as medical and therapeutic applications.

These financial statements have been prepared on a going concern basis, which assume that the Company will continue in operation for the foreseeable future and accordingly will be able to realize its assets and discharge its liabilities in the normal course of operations. Since inception, the Company has concentrated on research and development. It has had no net earnings, minimal revenues, negative operating cash flows and has financed its activities through the issuance of shares. The Company’s ability to continue as a going concern is dependent on obtaining additional investment capital and the achievement of profitable operations. There can be no assurance that the Company will be successful in increasing revenue or raising additional investment capital to generate sufficient cash flows to continue as a going concern. These financial statements do not reflect the adjustments that might be necessary to the carrying amount of reported assets, liabilities and revenue and expenses and the balance sheet classification used if the Company were unable to continue operation in accordance with this assumption.

### **1. Basis of presentation**

The unaudited consolidated balance sheet as at March 31, 2005 and the related unaudited consolidated statements of operations and deficit, and cash flows, for the three-month periods ended March 31, 2005 and 2004, have been prepared using accounting principles and practices consistent with those used and described in the annual financial statements. The interim financial statements do not include all disclosures required for annual financial statements. Accordingly, they should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto as at and for the year ended December 31, 2004 included in the Company’s annual report to shareholders. Information as at March 31, 2005 and for the periods ended March 31, 2005 and 2004 are unaudited.

### **2. Short-term investment**

	<b>March 31 2005</b>	December 31 2004
Number of Hemosol shares, a public company	<b>6,488,372</b>	3,000,000
Cost	<b>\$5,340</b>	\$2,340
Fair market value	<b>\$4,282</b>	\$3,030

As at March 31, 2005, the value of the investment has been written-down by \$987,674 following a decrease in the Hemosol share price which was below the carrying value.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Quarters ended March 31, 2005 and 2004

(In thousands of Canadian dollars, except number of shares)

### 3. Accounts receivable

	March 31 2005	December 31 2004
Trade	\$2,601	\$673
Sales taxes receivable	149	277
Tax credits receivable	1,498	1,298
Advance to an officer, without interest	360	360
Accrued interest and other	176	188
	<b>\$4,784</b>	<b>\$2,796</b>

### 4. Investments

	March 31 2005	December 31 2004
Convertible preferred shares of Arriva Pharmaceuticals, Inc.	\$2,281	\$2,281
Convertible preferred shares of AM-Pharma Holding B.V.	358	358
Cash subject to certain limitations	455	254
Excess of the interest in the joint venture Pathogen Removal and Diagnostic Technologies Inc. over proportionate share in consolidated net assets	1,719	1,586
	<b>\$4,813</b>	<b>\$4,479</b>

### 5. Share capital

#### a) Share issue

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

	Number	Amount
Balance as at December 31, 2004	86,486,784	\$134,569
Shares issued pursuant to: Exercise of warrants and options	10,000	10
Balance as at March 31, 2005	86,496,784	\$134,579

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*Quarters ended March 31, 2005 and 2004*

*(In thousands of Canadian dollars, except number of shares)*

b) Stock options

The Company has established a stock option plan for its directors, officers and employees or consultants. The following table summarizes the changes in the number of stock options outstanding over the last years:

	<b>Options</b>	<b>Weighted average exercise price per share</b>
Number of options as at December 31, 2004	3,615,702	\$1.62
2005 Granted	47,500	2.70
Exercised	(10,000)	1.00
Cancelled	-	-
Number of options as at March 31, 2005	3,653,202	\$1.64

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

The Company uses the Black-Scholes option valuation model to calculate the fair value of options at the date of grant, using the following assumptions:

	<b>March 31 2005</b>
Risk-free interest rate	4.71%
Dividend yield	0%
Expected volatility of share price	76.5%
Expected life	5 years

The estimated fair value of options granted during the quarter ended March 31, 2005 is \$0.46.

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Quarters ended March 31, 2005 and 2004

(In thousands of Canadian dollars, except number of shares)

### **6. Additional information on the consolidated statement of cash flows**

	<b>Quarter ended March 31</b>	
	<b>2005</b>	<b>2004</b>
a) Change in working capital items		
Accounts receivable	<b>(\$1,988)</b>	(\$152)
Inventories	<b>43</b>	(166)
Prepaid expenses	<b>(299)</b>	(168)
Accounts payable and accrued liabilities	<b>1,659</b>	151
Deferred revenue	<b>(77)</b>	-
	<b>(\$662)</b>	(\$335)
b) Non-cash transactions		
Unpaid additions to capital assets and licenses and patents	<b>\$316</b>	\$109
Excess of the interest in the joint venture Pathogen Removal and Diagnostic Technologies Inc. over the proportionate share in the consolidated net assets	<b>133</b>	133
Preferred shares retractable at the holder's option	<b>133</b>	133
Unpaid share issue expenses	<b>8</b>	-
Shares of AM Pharma received as consideration of research and development service rendered	<b>-</b>	182

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Quarters ended March 31, 2005 and 2004

(In thousands of Canadian dollars, except number of shares)

### 7. Segmented information:

The Company operates in one reporting segment consisting in research, development, manufacturing and commercialization of a variety of commercial applications from its technology platform.

#### a) Revenues by geographic segment <sup>(1)</sup>

	Quarter ended March 31	
	2005	2004
Canada	\$4,425	\$ -
United States	262	41
United Kingdom	119	193
Europe (excluding United Kingdom)	416	262
Other countries	-	32
	<b>\$5,222</b>	<b>\$528</b>

(1) Revenues are attributed to countries based on location of customer and not on location of subsidiaries.

#### b) Assets by geographic segment

	March 31	December 31
	2005	2004
Canada	\$18,956	\$18,928
United States	342	288
United Kingdom	9,508	10,489
	<b>\$28,806</b>	<b>\$29,705</b>

#### c) Capital assets and licenses and patents by geographic segment

	March 31	December 31
	2005	2004
Canada	\$4,924	\$5,076
United States	86	87
United Kingdom	5,338	5,457
	<b>\$10,348</b>	<b>\$10,620</b>