



PROMETIC

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QUARTERLY REPORT  
FOR THE PERIOD ENDED SEPTEMBER 30, 2005

**WE'RE  
CREATING  
A HEALTHIER  
FUTURE**

# **PROMETIC LIFE SCIENCES INC.**

## **Quarterly Report**

**Nine-month period ended September 30, 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**
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## **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 September 30, 2005 and for the periods ended September 30, 2005 and 2004 are unaudited.

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, revenues and expenses and the balance sheet classification used if the Company were unable to continue operation in accordance with this assumption.

### **RESULTS OF OPERATIONS**

*Revenues* for the third quarter of 2005 reached \$0.5 million compared to \$1.6 million in the same period last year. Lower sales are mainly explained by the delay in shipment of products to Hemosol caused by Hemosol's financial situation and by the appreciation of the Canadian dollar against the US dollar and British pound. We expect sales improvement in the coming quarters. No licence revenues were recorded during the quarter. Year to date revenues are \$6.8 million compared to \$7.3 million for the same period last year.

*Research and development expenses* amounted to \$3.1 million for the third quarter compared to \$3.6 million in the same period in 2004. For the nine months ended September 30, 2005, research and development expenses were \$10.8 million compared to \$11.8 million for last year. Lower research and development expenses reflect mainly the research and development tax credits received during the third quarter. The Company has begun implementation of a cost reduction program that will generate savings as of the fourth quarter of 2005.

*Administration, marketing and other expenses*, excluding amortization, were \$1.5 million for the third quarter of 2005, compared to \$1.4 million for the same period in 2004. For the first nine months of 2005, the Company incurred a total of \$5.0 million of such expenses, an increase of \$0.8 million compared to last year for the same period.

A write-down of *short term investment* related to the market value of Hemosol shares held by the Company was recorded during the third quarter for an amount of \$0.6 million. The year-to-date write-down of Hemosol shares is \$3.8 million. Further write-downs could be expected if Hemosol's financial situation does not improve in the coming months

*Net loss* for the quarter was \$5.6 million, or \$0.04 per share, compared to \$4.6 million, or \$0.05 per share, for the same quarter in 2004.

*Cash and cash equivalents* amounted to \$6.9 million and the short-term investment representing Hemosol shares totalled \$1.5 million as at September 30, 2005

*Cash flows* used in operating activities totalled \$3.6 million for the third quarter, compared to \$3.8 million for the same period in 2004.

*Cash flows* generated from investing activities amounted to \$5.3 million for the third quarter and mostly resulted in the liquidation of a short term investment of \$6.0 million.

As at September 30, 2005, the Company has 116,501,784 subordinate voting shares outstanding (December 31, 2004: 86,486,784) and 3,544,677 options granted under the employee stock option plan (December 31, 2004: 3,615,702). A total of 1,710,000 warrants were outstanding.

## **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)  
(Unaudited)

	<b>September 30</b> <b>2005</b> <b>(Unaudited)</b>	December 31 2004 Audited
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	<b>\$6,856</b>	\$6,770
Short-term investment (note 4 et 7)	<b>1,460</b>	2,340
Accounts receivable (note 5)	<b>2,145</b>	2,796
Inventories	<b>1,277</b>	921
Prepaid expenses	<b>638</b>	789
	<b>12,376</b>	13,616
Investments (note 6)	<b>5,369</b>	4,479
Capital assets	<b>5,304</b>	5,190
Licenses and patents	<b>5,375</b>	5,430
Deferred development costs	<b>239</b>	990
	<b>\$28,663</b>	\$29,705
<b>LIABILITIES</b>		
Current liabilities		
Bank loans (note 7)	<b>\$1,617</b>	\$1,029
Accounts payable and accrued liabilities	<b>4,577</b>	4,999
Deferred revenues	<b>-</b>	243
Current portion of long-term debt	<b>424</b>	440
	<b>6,618</b>	6,711
Long-term debt	<b>86</b>	407
Provision related to a lawsuit (note 8)	<b>2,887</b>	2,715
Preferred shares, retractable at the holder's option	<b>2,083</b>	1,586
	<b>11,674</b>	11,419
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 9)	<b>150,697</b>	135,682
Contributed surplus	<b>159</b>	99
Deficit	<b>(133,867)</b>	(117,495)
	<b>16,989</b>	18,286
	<b>\$28,663</b>	\$29,705

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

*The unaudited quarterly financial statements have not been reviewed by external auditors*

**PROMETIC LIFE SCIENCES INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands of Canadian dollars except for per share amounts)  
(Unaudited)

	Quarter ended September 30		Period ended September 30	
	2005	2004	2005	2004
<b>Revenues</b>				
Sales and contract	\$ 487	\$ 1,614	\$2,836	\$2,965
Licensing	-	-	3,999	4,370
	<b>487</b>	1,614	<b>6,835</b>	7,335
<b>Charges</b>				
Research and development expenses	3,097	3,623	10,819	11,827
Administration, marketing and other expenses	1,526	1,389	4,987	4,229
Amortization of capital assets	278	290	822	818
Amortization of licenses and patents and deferred development costs	392	396	1,177	1,195
	<b>5,293</b>	5,698	<b>17,805</b>	18,069
<b>Loss before the following items</b>	<b>(4,806)</b>	(4,084)	<b>(10,970)</b>	(10,734)
Write-down of short-term investment (note 4)	(568)	(530)	(3,810)	(530)
Net interest income (expenses)	(253)	16	(318)	186
<b>Net loss</b>	<b>(\$5,627)</b>	(\$4,598)	<b>(\$15,098)</b>	(\$11,078)
Net loss per share (basic and diluted)	<b>(0.04)</b>	(0.05)	<b>(0.14)</b>	(0.11)
Weighted average number of outstanding shares (in thousands)	<b>129,528</b>	99,503	<b>111,063</b>	99,404

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

*The unaudited quarterly financial statements have not been reviewed by external auditors*

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

(In thousands of Canadian dollars)

(Unaudited)

	Quarter ended September 30		Period ended September 30	
	2005	2004	2005	2004
<b>Deficit, beginning of the period</b>	<b>\$128,096</b>	\$ 106,823	<b>\$117,495</b>	\$100,117
Adjustment for change in stock-based compensation	-	-	-	44
Deficit, beginning of the period as restated	<b>128,096</b>	106,823	<b>117,495</b>	100,161
Net Loss	<b>5,627</b>	4,598	<b>15,098</b>	11,078
Share issue expenses	<b>144</b>	-	<b>1,274</b>	182
<b>Deficit, end of period</b>	<b>\$133,867</b>	\$ 111,421	<b>\$133,867</b>	\$111,421

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

*The unaudited quarterly financial statements have not been reviewed by external auditors*

**PROMETIC LIFE SCIENCES INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands of Canadian dollars)  
(Unaudited)

	Quarter ended September 30		Period ended September 30	
	2005	2004	2005	2004
<b>Cash flows from (used in) operating activities</b>				
Net loss	(5,627)	(\$4,598)	(\$15,098)	(\$11,078)
Adjustments to reconcile net loss to cash flows used in operating activities				
Revenue paid in shares	-	-	(3,000)	-
Stock-based compensation	7	19	60	39
Write-down of short-term investment (note 4)	568	530	3,880	530
Loss on disposal of capital assets	-	(1)	-	(1)
Amortization of capital assets	278	290	822	818
Amortization of deferred development costs	252	250	753	766
Amortization of licenses and patents	140	146	424	429
	<b>(4,382)</b>	(3,364)	<b>(12,159)</b>	(\$8,497)
Change in working capital items (note 10a)	777	(430)	604	(3,840)
	<b>(3,605)</b>	(3,794)	<b>(11,555)</b>	(12,337)
<b>Cash flows from (used in) financing activities</b>				
Proceeds from share issues	-	-	15,015	3,056
Share issue expenses	(167)	-	(1,241)	(398)
Bank Loan	(492)	-	588	-
Repayment of long-term debt	(99)	(131)	(337)	(363)
	<b>(758)</b>	(131)	<b>14,025</b>	2,295
<b>Cash flows from (used in) investing activities</b>				
Disposal (acquisition) of short-term investments	6,000	(8,381)	-	(8,381)
Acquisition of an investment	5	(129)	(393)	(310)
Additions to capital assets	(470)	(598)	(1,673)	(1,489)
Additions to licenses and patents	(242)	(182)	(318)	(1,264)
	<b>5,293</b>	(9,290)	<b>(2,384)</b>	(11,444)
Net (decrease) increase in cash and cash equivalents	930	(13,215)	86	(21,486)
Cash and cash equivalents, beginning of period	5,926	15,781	6,770	24,052
<b>Cash and cash equivalents, end of period</b>	<b>\$6,856</b>	\$2,566	<b>\$6,856</b>	\$2,566

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

*The unaudited quarterly financial statements have not been reviewed by external auditors*

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*Quarters ended September 30, 2005 and 2004*

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

*(Unaudited)*

### **1. Governing statutes and nature of operations**

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.

### **2. Basis of presentation**

The unaudited consolidated balance sheet as at September 30, 2005 and the related unaudited consolidated statements of operations and deficit, and cash flows, for the nine-month periods ended September 30, 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 September 30, 2005 and for the periods ended September 30, 2005 and 2004 are unaudited.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Quarters ended September 30, 2005 and 2004

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

(Unaudited)

### 3. Information included in the consolidated statement of operations

	Quarter ended September 30		Nine-month ended September	
	2005	2004	2005	2004
Amortization of capital assets	\$ 278	\$ 290	\$ 822	\$ 818
Amortization of deferred development costs	252	250	753	766
Amortization of licenses and patents	140	146	424	429
Research and development tax credits	517	-	792	-
Interest on long-term debt	42	22	118	72

### 4. Short-term investment

Investment	September 30 2005	December 31 2004
Hemosol's shares * (note 7)	\$ 1,460	\$ 2,340

\* As at September 30, 2005, the value of the investment has been written-down by \$ 3,810,116 (\$530,000 as at December 2004) following a decrease in the Hemosol share price which was below the carrying value. Since the fair market value is uncertain, it is very difficult to determine the value of Hemosol shares.

	September 30 2005	December 31 2004
Number of Hemosol shares, a public company	1,622,093	750,000
Cost, minus the write-down	\$ 1,460	\$ 2,340
Fair market value	\$ 1,460	\$ 3,030

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Quarters ended September 30, 2005 and 2004

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

(Unaudited)

### 5. Accounts receivable

	September 30 2005	December 31 2004
Trade	235	\$ 673
Sales taxes receivable		277
Tax credits receivable (note 7)	1,273	1,298
Advance to an officer, without interest		360
Accrued interest and other		188
	\$ 2,145	\$ 2,796

### 6. Investments

	September 30 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	447	254
Guaranteed Investment Certificate related to a letter of credit	200	-
Excess of the interest in the joint venture Pathogen Removal and Diagnostic Technologies Inc. over proportionate share in consolidated net assets	2,083	1,586
	\$ 5,369	\$ 4,479

### 7. Bank loans

	September 30 2005	December 31 2004
Bank loan (authorized up to \$1,5 million) guaranteed by the investment in Hemosol. A ratio of 40 % of the fair market value of Hemosol's shares has to be respected. The loan bears an annual interest of 8 %. (note 3)	\$ 588	\$ -
Bank loan related to research and development tax credits and secured by an hypothec in the amount of \$1,3 million on all present and future assets of the subsidiary (other than intellectual property and certain investments) guaranteed by the Company, bearing interest at prime plus 1.75% (6,25 % as at September 30, 2005 and 6 % as at December 31, 2004), payable upon receipt of the corresponding tax credits.	1,029	1,029

The unaudited quarterly financial statements have not been reviewed by external auditors

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Quarters ended September 30, 2005 and 2004

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

(Unaudited)

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**\$ 1,617**      **\$ 1,029**

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### 8. Provision related to a lawsuit

A legal hypothec in the amount of \$2,887,169 (with interests and additional indemnity as provided by law) resulting from a judgment, was registered on December 23, 2004 in favor of Bank of Montreal and charging certain movable assets of ProMetic Life Sciences Inc. ("PLI"), including shares held by it in the capital of its subsidiaries and Hemosol Corp., Arriva Pharmaceuticals Inc., Arriva-ProMetic Inc., AM-Pharma Holding B.V., Pathogen Removal and Diagnostic Technologies Inc., any sums lent to them by PLI and sums held by PLI with National Bank Trust Inc.

### 9. Share capital

	September 30 2005		December 31 2004	
	Number	Amount	Number	Amount
Issued and fully paid:				
Subordinate voting shares	116,501,784	\$ 149,584	86,486,784	\$ 134,569
Multiple voting shares	13,026,275	1,563	13,026,375	1,563
Share purchase loan to an officer (without interest and due no later than 2009)		(450)		(450)
Balance, at end of year		\$ 150,697		\$ 135,682

#### 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	15,000	15
Public offerings	30,000,000	15,000
Balance as at September 30, 2005	116,501,784	\$ 149,584

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Quarters ended September 30, 2005 and 2004

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

(Unaudited)

### b) Stock options

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

	Options	Weighted average exercise price per share
Number of options outstanding as at December 31, 2004	3,615,702	\$1.62
2005 Granted	297,500	1.27
Exercised	(15,000)	1.00
Cancelled	(353,525)	2.10
Number of options outstanding as at September 30, 2005	3,544,677	\$1.55

### 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:

	September 30 2005
Risk-free interest rate	3.82 %
Dividend yield	0 %
Expected volatility of share price	87.52 %
Expected life	5 years

The estimated fair value of options granted during the quarter ended September 30, 2005 is \$0.25.

### (d) Warrants:

As part of the issue of subordinate voting shares pursuant to public and private offerings, the Company also granted warrants for the purchase of subordinate voting shares.

As at September 30, 2005, the following warrants were outstanding:

Warrants	Expiry date	Exercise price
1,710,000	June 2006	\$0.575

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Quarters ended September 30, 2005 and 2004

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

(Unaudited)

### 10. Additional information on the consolidated statement of cash flows

30	Quarter ended September 30		Nine-month ended September	
	2005	2004	2005	2004
a) Change in working capital items				
Accounts receivable	\$ 786	\$ (342)	\$ 651	\$ (740)
Inventories	(368)	-	(356)	(239)
Prepaid expenses	252	207	151	113
Accounts payable and accrued liabilities	134	(295)	401	(1,174)
Deferred revenue	(27)	-	(243)	(1,800)
	\$ 777	\$ (430)	\$ 604	\$ (3,840)

	Quarter ended September 30		Nine-month ended September 30	
	2005	2004	2005	2004
b) Non-cash transactions				
Unpaid additions to capital assets licenses and patents	\$ (129)	\$ (24)	\$ 155	\$ 145
Excess of the interest in the joint venture Pathogen Removal and Diagnostic Technologies Inc. over the proportionate share in the consolidated net assets	222	76	497	423
Preferred shares retractable at the holder's option	222	76	497	423
Unpaid share issue expenses	(23)	-	41	7

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Quarters ended September 30, 2005 and 2004

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

(Unaudited)

### 11. 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 September 30		Nine-month ended September	
	2005	2004	2005	2004
Canada	\$ 42	\$ 15	\$ 4,754	\$ 4,380
United States	68	509	385	824
United Kingdom	14	338	243	679
Europe (excluding United Kingdom)	363	744	1,453	1,402
Other countries	-	8	-	50
	<b>\$ 487</b>	<b>\$ 1,614</b>	<b>\$ 6,835</b>	<b>\$ 7,335</b>

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

#### b) Assets by geographic segment

	September 30	December 31
	2005	2004
Canada	\$ 20,003	18,928
United States	204	288
United Kingdom	8,456	10,489
	<b>\$ 28,663</b>	<b>\$ 29,705</b>

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

	September 30	December 31
	2005	2004
Canada	\$ 4,786	\$ 5,076
United States	130	87
United Kingdom	5,763	5,457
	<b>\$ 10,679</b>	<b>\$ 10,620</b>